

JPRS-CAR-93-070
21 September 1993



**FOREIGN
BROADCAST
INFORMATION
SERVICE**

JPRS Report

China

China

JPRS-CAR-93-070

CONTENTS

21 September 1993

POLITICAL

- Xu Jiatun's Memoirs Continued [Hong Kong LIEN HO PAO 28-31 May, 1-6 Jun] 1

ECONOMIC

NATIONAL AFFAIRS, POLICY

- Guo Zhenying on Direction of Economy for 1990s [GUANLI SHIJIE 24 May] 14
Article on Development of Pillar Industries [JINGJI GUANLI 5 May] 25

INDUSTRY

- Baoshan Iron, Steel Complex Sets Production Record [XINHUA] 29

FOREIGN TRADE, INVESTMENT

- Yancheng Investigates Capital Management in FIEs [GUOJI MAOYI WENTI 30 Jun] 29
Enterprises With Trading Rights Face Difficulties [GUOJI MAOYI 15 May] 32

SOCIAL

- Liu Zaifu on State's Position in Literature [Hong Kong MING PAO YUE-KAN Aug] 35

MILITARY

- Zhang Zhen Speech on 'Autumn Harvest Uprising' [JIEFANGJUN BAO 7 Jul] 39
Tank Division Excels in Desert Maintenance Exercise [JIEFANGJUN BAO 5 Jul] 39
Division Trains in Defeating Night Vision Equipment [JIEFANGJUN BAO 27 Jun] 40
Jiangxi MD Commander on Reserve Duty [ZHONGGUO MINBING 9 May] 40
Sanjiu Enterprise Group Trade Figures Reported [JIEFANGJUN BAO 10 Jun] 42

Xu Jiatun's Memoirs Continued

93CM0426A Hong Kong LIEN HO PAO in Chinese
28-31 May, 1-6 Jun 93

[Selections from serialized memoirs: "Xu Jiatun Wants To Be a Witness to History. Xu Jiatun's Hong Kong Memoirs"]

[28 May 93 p 2]

[Text] "Company Theory" Versus "Insulation Theory" (Part 1 of 2): Meeting Three Hong Kong High Officials at Chinese University Chancellor Ma Lin's [7456 5259] Vacation Home—Chung Sze-yuen, Lydia Dunn, and Lee Quo-wei Bring Up the "Company Theory"

After we resumed negotiations, Britain began to fiddle with Hong Kong's public opinion. Without really abandoning their claim to "the validity of the three treaties," they came up with a new strategy of "trading sovereignty for administrative presence," which contradicted the Chinese government's stand that sovereignty and administration were inseparable. Overnight, Hong Kong was inundated with talks and programs representing the British stand, the most active of which were the "company theory" and the "insulation theory."

When Qiao Zonghuai [9829 1350 3232] arrived in Hong Kong, he met senior Executive Council member Chung Sze-yuen and EC members Lydia Dunn and Lee Quo-wei through Chinese University's Chancellor Ma Lin. They were the highest ranking Chinese officials in the British Hong Kong government at that time. Only now have I learned that they were the same representatives who, according to Yang Zhenning's [2799 2182 1380] report to the leadership in Beijing, had expressed dissatisfaction with the Hong Kong office of XINHUA.

Three days after I arrived in Hong Kong, I met with Qiao Zonghuai, and immediately we went to the Chinese University chancellor's vacation home to meet Chung Sze-yuen and company. The house was located at mid-level on a hill across from Chinese University; it had a beautiful view. Chancellor Ma Lin hosted a dinner party for us. Before dinner, we sat down for afternoon tea in the garden and began to chat.

They first "introduced" me to the Hong Kong people's jitters. They said that an increasing number of people were opting for emigration, and many felt that they had no choice. They also talked about the investors' concerns, that many were scattering their funds so as not to "put all their eggs in one basket," and many were sending their money abroad. The main reason for all these was because China was going to take back Hong Kong.

They suggested that the best way to ease the Hong Kong people's minds was for China to run Hong Kong like a "company": China takes back the sovereignty rights and acts as chairman of the board while hiring the British to be the general manager to continue to govern Hong Kong. With their previous experience, the British can

handle the job with ease, and the Hong Kong people will have ease of mind and the investors will be happy.

Chung Sze-yuen did most of the talking. His Mandarin was so-so, not very fluent. Of the three, Lydia Dunn was the most fluent in Mandarin. They tried their best to make it easy for me, a mainlander who spoke no Cantonese.

I explained to them in detail the Chinese government's general and specific policies on taking back Hong Kong. It seemed to me that they had already heard about them, and they tactfully but frankly expressed that Hong Kong people had no faith in China; that there was no precedence for the "one country, two systems" principle China wanted to implement in Hong Kong, and nobody had any confidence in its success. Moreover, they also said that the Chinese government had once promised Tibet a high degree of autonomy, but it did not live up to its promise. China's record worried many Hong Kong people. I noticed that they were very careful with their words, avoiding the mistake many in Hong Kong's media made in referring to "China" as the "CPC."

I did not go into the Tibet situation in detail. I only told them that since the Cultural Revolution, Hu Yaobang had been to Tibet to rectify past mistakes. "China's policy toward Hong Kong will not change."

I promised to bring their ideas back to Beijing.

In my own opinion, I had not convinced these high-level Hong Kong personages. They had close ties with the British government and the British financial groups and were well-known and socially very influential. It would take some effort to convince them to change their minds, to help them understand and agree with China's policy. I considered letting them go to Beijing to meet with the high-level leadership. This not only would let our leaders hear their suggestions directly but would also let our leaders work on them. They had the same idea in mind—before going to London to sell their idea to the British government, they told me that they wanted to go to Beijing to present their views on behalf of the Hong Kong Executive Council.

I immediately reported to the central authorities on my meeting with these three people and suggested inviting them to Beijing, and in particular, I suggested that Deng Xiaoping receive them personally (Deng Xiaoping rarely received guests). Beijing agreed right away. I acted in my own capacity and invited them to pay an unofficial visit to Beijing rather than as delegates from the Hong Kong Executive Council. Deng Xiaoping met with them. Chung Sze-yuen might have been more experienced, but he was also more stubborn. When meeting Deng Xiaoping, he still insisted that they were representing the Hong Kong people. Lydia Dunn was much more flexible, and she skillfully changed the subject. Right from the start, Deng Xiaoping refused to recognize them as representatives of the Hong Kong people and stressed that they were there as private citizens.

There was another little episode after the Beijing visit. After they returned to Hong Kong, the three continued to tell the news media that they had represented the Hong Kong people on their trip to Beijing. We immediately asked the Hong Kong and Macao Affairs Office to send the record of their meeting with Deng Xiaoping to Hong Kong for publication, so that on the one hand, the Hong Kong people would not get the wrong impression, and on the other hand, they could read the complete text of Deng Xiaoping's speech, letting this authoritative personage talk about the general and specific policies and win the Hong Kong people's confidence.

In coordination with our media blitz, I took the opportunity when speaking at a Young Managers' Luncheon to criticize certain people who wanted continued British rule. I used the phrase "lone subject and bastard son of colonialism" in an attempt to put some psychological pressure on them to convince them to change their minds. Later I learned that it triggered a negative response and I felt that I had indeed used strong words. I learned my lesson and would later try to be much more considerate of the Hong Kong people's feelings and mood when I spoke.

[29 May 93 p 2]

[Text] "Company Theory" Versus "Isolation Theory" (Part 2 of 2): Shen Bi Brings up Lee Kwan Yew's "Insulation Theory"—Sovereignty for Administrative Presence—the British Strategy

Shen Bi [3088 1732], Hong Kong and Shanghai Bank chairman, invited me to tour the bank and hosted a dinner party for me on the top floor of the bank building.

Back then, they had not built the new Hong Kong and Shanghai Bank building. The old building was shorter than the Bank of China building, facing Victoria Harbor. But Shen Bi had not invited me there to enjoy the ocean view. Dinner was Western style: a soup, two entrees, and a dessert. It took more than three hours. Other guests included Maria Tam Wai-chu, another Englishman (I cannot recall his name,) and my English translator.

Maria Tam did most of the talking. She probably came prepared. She also began with the general sense of insecurity, the Hong Kong people's distrust of China, emigration and removal of funds (she also used the phrase "not putting all the eggs in one basket" and similar terms but not "capital flight"). She suggested that the Chinese government adopt the "Hong Kong Company" approach and make itself Hong Kong's "chairman of the board" while hiring the British to be the "general manager." Putting it bluntly, she said: "The British will find this method acceptable."

Because she spoke in English, with translation, the conversation took two hours. Although it was our first meeting, I already knew that she spoke fairly good Mandarin.

After Maria Tam's speech, Shen Bi spent more than 10 minutes to put in the finishing touch. "Mr. Director, right in that chair where you are sitting," he pointed to my high-back chair, "sat Singapore's Prime Minister Lee Kwan Yew when he said, 'Hong Kong should act as an insulation between the Western world and China's socialism.'"

Shen Bi spoke in an even more serious tone. "Mr. Lee Kwan Yew was right. If your government adopts Madam Tam's suggestion, Hong Kong people will be less fearful, and Hong Kong can remain stable and prosperous."

Shen Bi's frank talk clarified things for me: Trading sovereignty for administrative power has become the British government's main strategy against China's taking back of Hong Kong. Were the Hong Kong people, or was it Lee Kwan Yew, the first to come up with this idea which the British accepted? Or was it a British invention, and they in turn used the Hong Kong people to propagate it? We have yet to find out, but it is no longer important. What is important is that at that stage, the British strategy in the negotiations and struggle against China's taking back of Hong Kong was quite clear.

When I got back to the agency, I immediately wired my own analysis back to the CPC Central Committee.

Armed with the pertinent information and reports, and through government spokesmen and speeches delivered by the leadership, the Chinese government reiterated that sovereignty and administration were inseparable; without power to administer, there would be no sovereignty to speak of. In "1997", China will take back both sovereignty and administration.

According to the mainland's decisionmaking department, the "insulation theory" Shen Bi had attributed to Lee Kwan Yew had to do with Mrs. Thatcher's "independence" talk. She once said, "if Hong Kong were an ordinary colony, it would have become another Singapore." This had a profound impact on certain Hong Kong people. When I spoke with the Hong Kong people, some said, "Hong Kong should have its own Lee Kwan Yew." Clearly, they wanted "independence." Some people simply demanded putting the idea to a vote under United Nations or British supervision to see if the Hong Kong people wanted independence. Some scholars too suggested that the solution to the Hong Kong problem was to model Puerto Rico. They said that Hong Kong should borrow from Puerto Rico's "semi-independent" or "quasi-independent" style of autonomy under the United States' jurisdiction. All these opinions, like the "insulation theory," either wanted "independence" from China or wanted Hong Kong to be some kind of "independent entity." These of course were unacceptable because they contradicted the fact that Hong Kong is a part of China's inherent state system. In terms of objective capabilities, for Hong Kong to be "independent" like Singapore or other British colonies is also quite impossible.

Back then, most of the talks were for letting the British maintain an administrative presence, but in fact most really wanted Hong Kong to become some kind of "independent" entity.

Sino-British negotiations began in July 1983. Sure enough, the British delegates brought out a "transition theory" saying that for the British to get out of Hong Kong and transfer the administration to the Hong Kong people to achieve localization would take time, but there were only 14 more years to 1997, and that would not be enough. It would take at least 30-40 years to make the transition to ensure Hong Kong's stability. During this transition period, Britain should continue to govern under Chinese sovereignty.

The official British strategy of "trading sovereignty for administrative power" which had circulated in various quarters but hitherto never made public finally came out into the open. The "transition theory," "insulation theory," and "company theory" were different tunes rendered with equal skill—different approaches that produced the same result; they were cast in the same mold. Were Chung Sze-yuen and Shen Bi and others speaking their own minds when we met, or were the British relaying their messages to Beijing or testing the water through them? Both are possible.

But no matter what, I am truly impressed by Britain's ability to mobilize all forces to serve its scheme.

[30 May 93 p 2]

[Text] **The Struggle of "Public Opinion": Simon Keswick Sells British Scheme—Jardine Matheson's Move to the Bermuda Is No Coincidence**

During the negotiations, to pile more chips on the table, the British constantly tried to influence public opinion, deliberately playing their "public opinion card." In this respect, the Chinese side also mobilized their media to coordinate with the negotiations and struggle. They not only used the mainland's RENMIN RIBAO and XINHUA, but even in Hong Kong, they had to respond to Britain's "public opinion card"; they could not ignore it.

Surrounding the question of "whether administration can be extended" and other issues, China and Britain launched a confrontational propaganda war.

Hong Kong mobilized 72 leftist labor unions to hold a symposium to let it be known that Hong Kong's working masses wanted China to take back its sovereignty rights and that Hong Kong people should rule Hong Kong. It made quite a stir. Some newspapers described it as "sensational."

In coordination with the struggle at the negotiation table, I visited Hong Kong's labor unions, farmers' union, mass organizations, and residential districts in the New Territories. I also got in touch with high-level personages

and those in broadcast circles to win their support on the matter of China's taking back its sovereignty over Hong Kong.

Regarding these activities, some Hong Kong newspaper commentaries said that with Xu Jiatun taking the offensive by wining and dining those in media circles, some pro-"Republic of China" newspapers or newspapers that usually took a more anti-left stand had toned down their language and had stopped taking too blatant a stand against China's taking back its sovereignty over Hong Kong; even the television stations had made some changes. These in fact were exaggerations.

I also actively publicized China's policies among British Hong Kong's government officials and leaders of British-funded financial groups.

Jardine Matheson's chairman Simon Keswick asked to see me. Jardine was one of the biggest beneficiaries of the Opium War. When Keswick personally sought me out, I surmised that he was speaking on behalf of Hong Kong's British financial groups to sell us the British government's scheme of trading sovereignty for administration.

We met in XINHUA's conference room. Simon Keswick was accompanied by a Chinese comprador. Keswick was around 30 years old and carried with him an air of arrogance typical of the young.

Just as I expected, he had come to sell us the British scheme. After he spoke, I introduced him to the Chinese government's guiding principles and concepts. He was not impressed and interrupted me several times, criticizing the Chinese government for being untrustworthy.

I patiently explained to him that things in China were different now, and Hong Kong's economic system would not be changed in the future nor would any private citizen's or entrepreneur's properties be jeopardized. I understood how he felt: After the founding of New China, Jardine lost almost everything in the mainland.

Simon Keswick was young and impetuous and rudely cut me off, saying, "Hong Kong is being governed very well by the British. Why must China take back Hong Kong? If nothing is going to change, why drive out the British?"

It looked like he still had his ancestors' aggressiveness. I sternly replied, "Why take back Hong Kong? It is very simple. This is the result of an unfair treaty. The era of colonialism is over. The system may not change, but what must change is the British empire's history of aggression. The British colonial government must lower its flag and go back to London."

He saw the expression on my face and immediately apologized for his own blunder.

I replied that I understood and said, "I want to be your friend. Sometimes friends say the wrong things to each other, and it does not matter. So don't worry about it."

In March 1984, Jardine moved its charter to Bermuda. I don't think it was a coincidence. After the founding of New China, Jardine took a severe blow in the mainland which left a profound impression on Simon Keswick's clan. Beside Nanjing's Zhangjiang Bridge, the site of today's Jiangsu Meat Association Processing Plant, had once stood a large factory that belonged to Jardine. China in fact had confiscated it, and so they were afraid that once China took back Hong Kong, there would be another round of "property-sharing."

I once thought, was my speech one of the factors behind Simon Keswick's decision to move their charter to Bermuda? If I had been gentler, could this have been avoided? Of course, there is no way for me to answer this question. But at that time, I thought that if the same thing should happen again, I would be even less emotional.

After Jardine moved its charter, it was sharply criticized by many in Hong Kong. Simon Keswick asked to see me again. This time, his attitude had changed. He explained that it was purely a business move and asked for understanding. I did not criticize him. I only said: "There was no need for you to move the charter. China will not again carry out the policy it once implemented in Shanghai. We will adopt an entirely new approach in Hong Kong. Of course, what is done is done, and I can understand." He seemed moved. In my opinion, Jardine had already changed its charter, and there was nothing anyone could do. Our policy was to "hold on to British capital," hoping that the British entrepreneurs would stay in Hong Kong. We wanted to try our best to protect their interests and do a good job on the British entrepreneurs.

Simon Keswick also expressed that although the charter had been moved, Jardine's main business would stay in Hong Kong, and in the future it would still be interested in investing in the mainland; its emphases remained in Hong Kong and China. He was not just being polite. I knew they had investments in Guangzhou. I gave him my endorsement.

The Keswick brothers and I really became friends. Later when the brothers came to Hong Kong each year, we would invite each other to dinner. They no longer addressed me as "Mr. Director" but called me "uncle" instead. When I was about to retire, they presented me with four paintings and threw a farewell party for me. At that time, I was depressed, nor did I want to give Li Peng and company more excuses, and I turned down all invitations; the Keswick brothers' invitation was no exception.

On 10 January 1984, University of Hong Kong held its regular assessment meeting. Chancellor Huang Li-song [7806 7787 2646] asked me to give a speech. He hosted the meeting himself on that day, and more than a hundred Hong Kong University staff and faculty and alumni attended. Most were well-known scholars, professors, and Hong Kong's elites.

My topic was "Future and Hope" based on the "12 Articles" on taking back Hong Kong promulgated by

China and Britain. It was the first time the Chinese government had an official in charge speaking formally, openly, and comprehensively on the policy of taking back Hong Kong. Those who attended paid close attention. Chinese and English newspapers and television gave it extensive coverage, and society as a whole also noticed and responded to the event.

Soon thereafter, Deng Xiaoping received me. He said, "Your speech went very well." He approved. Of course, Deng Xiaoping knew that I had not reported to Beijing about the response to that speech.

In short, in response to Britain's playing their "public opinion card," we took a series of steps. The purpose was to win the people's hearts and get things going in Hong Kong, and everything was coordinated with the negotiations too. Of course, the two issues were one and the same.

May 93 p 2]

[Text] Britain Fails in Playing the Economic Card

The continuous devaluation of the Hong Kong dollar triggered a buying spree among the local people. To clear up the mess, the British Hong Kong authorities accepted the "12 Articles."

Typhoon "Ellen" attacked Hong Kong on 8 September 1983 and stayed there for several days. While the whole island of Hong Kong was hit by the rain-packed storm, the game of "the people's-will card" also heated up between China and Britain.

Since China and Britain entered the second stage of talks, the British side had adhered to its strategies of "transition" and "exchange of sovereignty for administration" and tried to have the issue of Hong Kong's sovereignty discussed in the first place. China insisted that sovereignty and administrative power were inseparable, and that both should be recovered in 1997. In China's opinion, the first thing to be discussed should be how to administer Hong Kong in 1997 and thereafter. As the two sides could not reach an agreement on this question, their relations were seriously strained. So, since the third-round of talks, the communiqués lacked such expressions as "beneficial" and "constructive," words indicative of the fine atmosphere of the talks. This fueled the fear among the Hong Kong people. The stock and real estate markets became bearish, and the Hong Kong dollar devaluated again and again. Public opinion was almost unanimous in attributing this to China's strong stance on the return of Hong Kong.

We agreed that there was a political factor behind the Hong Kong dollar's devaluation, but could not consent to the opinion that the devaluation was caused solely by the Chinese side. Especially, the slack of the real estate market, partly due to more supply than demand, was by no means caused by China. What is particularly unusual

was this fact: In general, when the value of a country's currency is out of control, the government takes necessary steps to intervene. Now, however, the British Hong Kong government deliberately allowed the value of the Hong Kong dollar to depreciate. Moreover, its financial secretary, Peng Li-chih, said openly: "The main reason for the devaluation of the Hong Kong dollar is the political prospect. In Hong Kong's free-market environment, the government can do nothing to control the trend of change in the currency value." This was an unequivocal statement to tell the Hong Kong compatriots that the Hong Kong dollar devaluated because China wanted to take back Hong Kong. The spearhead was thus directed at China. The purpose was to exert pressure on the Chinese government so as to boost Britain's bargaining chip for the subsequent talks.

The Hong Kong government refrained from taking any measure to improve the situation. Its stubborn attitude poured oil on the fire. As I perceived that the British Hong Kong government was applying pressure on the deadlocked Sino-British talks at the expense of sacrificing the Hong Kong people's interests, I went to Shenzhen the same evening to call up Beijing—whenever we had important matters to discuss with Beijing, we called from Shenzhen because the British Hong Kong government was monitoring XINHUA's telephone calls day and night. I told Ji Pengfei that Britain had switched its strategy from playing the "people's-will card" to playing the "economic card," and we should fight back. Ji Pengfei agreed with me. On that very night, I discussed this with Yang Qi, who was in charge of propaganda. We decided to expose the British scheme through the media.

At that time, three authoritative theoreticians from the mainland were visiting Hong Kong. They were economists Qian Junrui and Xu Dixin and foreign affairs and politics expert Huan Xiang. I consulted them on the Hong Kong dollar's devaluation and asked them to openly comment on this question in some appropriate way. Qian Junrui and Xu Dixin aired their opinions publicly, both criticizing the Hong Kong government's irresponsible attitude toward the continuous devaluation of the Hong Kong dollar.

While the Sino-British battle developed from the "people's-will card" game to an "economic card" game, the public was all the more anxious.

On 23 September the Sino-British fourth-round talks of the second stage ended in Beijing. The talks reached an impasse because of the diametrically opposite stands on the two sides. When this news spread, a hectic tide of exchanging Hong Kong dollars for greenbacks appeared in Hong Kong's monetary market. The Hong Kong dollar devaluated sharply against the U.S. dollar from 1:8.12 to 1:9.70 with a tendency to plummet beyond the 1:10 rate. The gold price skyrocketed to HK\$470.50 per

liang. The renminbi rate was adjusted three times in half a day with the selling rate hitting 22.12 yuan to \$100.

Description of those two days by the media was that the whole market was "frantic." They called 23 and 24 September "black Friday" and "black Saturday."

Describing the bank run, a Hong Kong journal stated: "Two long lines appeared at the bank. One was to exchange Hong Kong dollars for dollars or to withdraw dollars; the other was to put dollars into the vault." In supermarkets, the panic-buying human wave took everything from the shelves. Some supermarkets took the opportunity to raise the prices again and again. Rice, originally priced at \$18 a bag, now sold for \$23. A university lecturer said that he knew there was no need for rush to buy foods, but he had to get several more cans of milk powder because his baby could not do without it.

It was not until then that the Hong Kong government was concerned about the situation. The Hong Kong governor hurried back from Beijing. The next day he issued a statement to calm the public feeling. However, Financial Secretary Peng Li-chih remained overseas at this time, and the Hong Kong public had serious complaints against him. Under strong pressure, the Hong Kong government had no choice but to intervene in the situation, though it had said that in a free market the government should not control the currency. In mid-October, the Hong Kong government finally announced its measures to save the Hong Kong dollar: A linked exchange rate system was put into effect. The rate between the Hong Kong dollar and dollar was readjusted—the "official rate" was set at 1:7.80. Meanwhile, the 10 percent interest tax on Hong Kong dollar deposits was rescinded. This has stabilized the Hong Kong dollar up to the present.

People in business circles have different views on the linked Hong Kong dollar exchange rate. Through these years, my personal view is that it has noticeable advantages. All along, the Chinese government has also expressed support for the implementation of this rate.

After this incident, the British government came to know the determination of the Chinese side. Accordingly, in the ensuing fifth and sixth rounds of talks, Britain gave up its strategies of "transition" and "exchange of sovereignty for administration" and accepted China's "12 Articles." The two sides embarked on substantive discussions, starting from the question of how to administer Hong Kong in 1997 and thereafter.

Since then, Britain switched its strategy to "continued links" with Hong Kong. It wanted to maintain not only the economic "link" after 1997, but also political, ideological, and cultural "links" if at all possible. This strategy found clear and concrete expressions in the subsequent talks as well as in the course of drawing up the Basic Law.

[1 Jun 93 p 2]

[Text] Deng Xiaoping Criticizes Geng Biao, Huang Hua

Geng Biao's remark that no Chinese army would be stationed in Hong Kong was not in line with the central policy. This angered Deng Xiaoping, and another upheaval occurred in Hong Kong.

On the morning of 20 May 1984, at the Great Hall of the People, Deng Xiaoping wanted to meet with the deputies to the National People's Congress [NPC] and members of the National Committee of the Chinese People's Political Consultative Conference [CPPCC] from the Hong Kong and Macao areas. The secretariat of the ongoing NPC and CPPCC sessions told me to come to the Fujian Hall 30 minutes before the meeting.

I arrived on time. Ji Pengfei and Li Hou also came in one after the other.

Li Hou told Ji Pengfei and me: "The Deng Xiaoping Office wants us to make a 20 minute briefing to Comrade Xiaoping." As I understood it, this meant that Deng Xiaoping wanted to know what was going on in Hong Kong recently and the situation with respect to the Hong Kong and Macao deputies during the NPC session period. This was a task for Ji Pengfei, but he turned to me and said: "Would you make the briefing." I had not expected this, but before I could react, Deng Xiaoping came in. He shook hands with us and said: "Very well. What are you going to say today?" Then, he sat down, ready to listen to the briefing.

Recently, some people holding significant positions at home made casual remarks about Hong Kong, leading to some confused thinking among the Hong Kong public. For example, Mai Yang, chairman of the Guangzhou City Planning Commission, once said publicly: "In the future Hong Kong will be included in the Zhujiang Economic Sphere with Guangzhou as the center." This remark led to a lot of speculations and aroused considerable concern among the Hong Kong people. Their question was: Will Hong Kong be included in Guangzhou's administration or become a part of Guangdong or southern China in the future?

On discovering this, I immediately called the Guangdong provincial party committee to ask for clarification. The Guangdong provincial party committee arranged another interview between newspaper reporters and Mai Yang. In the interview Mai Yang said publicly: "It was only my personal view that the Zhujiang Economic Zone should include Hong Kong and Macao. I regret any misunderstanding caused by this." This arrangement was made to free the Hong Kong people of misgivings.

Also, during the NPC session period, some responsible persons in Beijing made remarks about Hong Kong, which were not in line with the opinion of Deng Xiaoping and the central authorities. For instance, Geng Biao, an NPC vice chairman and former defense minister, said at the NPC's Hunan Group meeting: "No

Chinese army will be stationed in Hong Kong." This was published by Hong Kong reporters. Geng Biao's remark was not in line with Deng Xiaoping's opinion and the central policy—Deng Xiaoping said that we would station our army in Hong Kong as a symbol of our state sovereignty. When I read the above in a report on the NPC session, I was much surprised. I didn't know why Deng's opinion and the central policy had not been disseminated among senior party cadres. Immediately, I thought that this problem should be brought to the attention of the central authorities and corrected as soon as possible.

I made a general briefing with emphasis on the various misgivings felt by the Hong Kong compatriots at that time about the central authorities' principle and policy on recovering Hong Kong. I also said that our work was inadequate to acquaint the Hong Kong compatriots with the central policy, and that some responsible persons, including a few responsible comrades at the central level, had made remarks not in line with the central policy, adding to the concern and misgivings of the Hong Kong public.

Deng Xiaoping immediately questioned: "Who are those responsible persons (at the central level)?"

I named Geng Biao and Huang Hua as examples. Both were NPC vice chairmen. Geng Biao's remark that "China will not station its army in Hong Kong" conflicted entirely with the central policy of "stationing troops in Hong Kong as a symbol of sovereignty." Huang Hua said: "After 1997 the Chinese delegation to the United Nations can have Hong Kong representatives." There was nothing like this in the established central policy. According to the Chinese communists' rule, no responsible person should openly promise anything not decided by the central authorities.

After hearing this, Deng Xiaoping said nothing. Following the briefing, we accompanied him to the Eastern Hall, where the meeting would take place. The NPC deputies and CPPCC members had already been standing there. They were waiting for photographing, after which they would take their seats for the meeting.

According to the arrangement made with the reporters by the Secretariat of the NPC and CPPCC sessions, prior to the meeting there were five minutes for reporters to take pictures, but they must withdraw before the opening of the meeting. Now, dozens of Hong Kong, Macao, and mainland reporters swarmed around Deng Xiaoping, their cameras clicking and flashing. Soon five minutes passed away. The meeting-organizing personnel asked the reporters to leave, and the reporters, with reluctance, began to withdraw. Some still tried to take a few last shots while they were backing out.

At this moment, Deng Xiaoping suddenly waved to the reporters and said loudly: "Hong Kong reporters please stay. I have something to talk to you."

This was quite unexpected. Greatly surprised, everyone looked at Deng Xiaoping, an enraged Deng Xiaoping, not knowing what had happened.

The reporters came back into the hall. Some were pale with fright. Others were in a frantic rush, trying to find something. They even forgot to bring their tape recorders!

Deng Xiaoping began to speak with passion. His remark was later faithfully reported by Hong Kong reporters. Deng Xiaoping said:

"First, with regard to the central government's statements on Hong Kong, what I say is official, and what Premier Zhao says is official. In addition to these, one that can speak officially is our Hong Kong and Macao Affairs Office with Ji Pengfei as the director. Another is our Ministry of Foreign Affairs, which has the minister and a spokesman for this particular question. Besides, I believe Xu Jiataun will speak in accordance with the central government's opinion; he will not make careless remarks. All other speeches are invalid and unofficial."

"Second, I want to deny a rumor. Huang Hua and Geng Biao have talked nonsense. The allegation on the question of whether to station our army in Hong Kong does not represent the opinion of the central government. Please publish a news report saying that it is not true. Our army will be stationed in Hong Kong. Hong Kong is China's territory. Why not station our army there?"

"When the British Secretary of State for Foreign and Commonwealth Affairs discussed this with me, he also acknowledged that, with the recovery of its sovereignty over Hong Kong, the Chinese government has the right to station its army there."

"The matter is quite clear. If we have no such right, how can Hong Kong be called a Chinese territory?"

Fei Yimin, director of TA KUNG PAO, was the chief representative of the Hong Kong and Macao delegation. Sitting by Deng, he was sometimes blushed and sometimes pale. In an absent-minded manner, he said: "The five-minute photographic session is over." He repeated this several times. I presumed that he was reminding Deng Xiaoping to ask the reporters to leave. But he forgot one thing: Deng Xiaoping wanted the reporters to stay after the five-minute photographic session.

I felt uneasy at that time. It was beyond my expectation that Deng flew into such a rage before the reporters. On the one hand, I was concerned about the upheaval that would take place in Hong Kong. On the other hand, I was ill at ease because Deng blamed Geng Biao and Huang Hua on this public occasion. I felt deeply apologetic to them.

After the meeting was over, I hurried out to see the Hong Kong reporters. Some of them were waiting for me at the north gate of the Great Hall of the People to find out what Deng Xiaoping said after they had left. On seeing me, they asked: Why was Deng Xiaoping so angry today? I asked them: Have you sent out the news release? They replied: We did so immediately after we came out. I had hoped to dissuade them from sending such a news

release or ask them to change the "way of description" so as to alleviate the upheaval in Hong Kong society (of course, this was impossible, but I wanted to try). Now that they had already done so, I could only say helplessly: "That's O.K."

At that time, Fei Yimin walked out of the Great Hall and was intercepted by reporters. He took the opportunity to give a supplementary explanation on the question of stationing the Chinese army in Hong Kong. On the afternoon of the same day, I asked Han Li, deputy director of the Propaganda Department of the XINHUA branch in Hong Kong, to write a rather comprehensive report on Deng Xiaoping's remark in this regard so that it could be distributed to the Hong Kong reporters as a reference material for reporting this matter. I tried to reduce the Hong Kong people's misgivings and alleviate the upheaval in society.

When I returned to Hong Kong, I took advantage of various occasions to explain repeatedly that stationing Chinese troops in Hong Kong is a symbol of sovereignty. I also said that Hong Kong need not bear the expense for this. Now, Hong Kong has to bear three-quarters of the expense for the British troops stationed there. China would not do anything like that. The Chinese army in Hong Kong would not be large. Deng Xiaoping said that there would be 3,000 to 4,000 troops. They would not interfere in Hong Kong's day-to-day affairs. Nor would they attend to public security, which is a responsibility of the police. Only in the case of a disaster or a turmoil would the army come out to help stabilize the situation as requested by the government of the special administrative region. The purpose of stationing the army there would be preventive in nature.

At that time, a relatively large number of people in Hong Kong were not in favor of stationing troops there. They were afraid that the People's Liberation Army would interfere in local affairs, disobey local laws and orders, and so forth. Some suggested that troops be stationed in Shenzhen, not in Hong Kong; they could come when they were needed.

When Deng Xiaoping's remark on the question of stationing the Chinese army in Hong Kong had been reported by the Hong Kong mass media, a strong reaction did appear in society. The Hang Seng Index dropped by 30 points. I felt strongly that our propaganda on the central authorities' principle and policy about Hong Kong's return had not caught up with the development of the situation, and arrangements should be made to beef up this work.

[2 Jun 93 p 2]

[Text] In January 1984, when the Chinese-British negotiations entered the eighth round of the second stage, the Chinese announced that they were replacing their negotiating delegations chief, with Zhou Nan [0719 0589], assistant minister of foreign affairs, taking over from Yao Guang [1202 1684]. I understand that this "battlefield change-of-commission" was due to the Central

Foreign Affairs Group having decided that Yao Guang had not fought hard enough in former rounds in the struggle over the exchange of British sovereignty for administrative authority, so that the negotiations had not developed in line with Chinese plans.

After the eighth round, the talks generally went smoothly. In April, on arrival in Hong Kong after a visit to Beijing, British Foreign Minister Howe announced publicly that Britain would renounce its sovereignty over Hong Kong in 1997, also saying that "the plan to reach an accord that would enable Hong Kong to continue to remain under British administration after 1997 is impractical." This showed that Britain had already decided to return both sovereignty and administrative authority over Hong Kong to China in 1997, meaning that the major negotiating issue had been resolved.

But based on a Foreign Ministry circular and the news brought from the negotiating table in Beijing by Qiao Zonghuai [0829 1350 3232] (deputy secretary general of the Hong Kong Office of XINHUA), I knew that China and Britain were still disputing several issues, a key one being the Chinese proposal to set up a Sino-British Joint Liaison Group.

The establishment of such a group by China and Britain was Deng Xiaoping's idea, being aimed at pre-1997—i.e., the 13-year transition period before Hong Kong's return to Chinese sovereignty, during which issues involved in implementing the Sino-British Joint Declaration on Hong Kong would be handled by both sides through liaison and consultation by this specially-established group to deal with matters that might arise.

Both Britain and Hong Kong society responded strongly to this proposal, saying that Britain did not want to become a "lame duck." "Lame duck" is U.S. slang for the period when a new president has been elected but the old one has not yet left office, in which the old president actually finds it hard to take much action, so is called a "lame duck."

In Britain's not wanting its Hong Kong administration to become a "lame duck" before "1997," their concern was that the Liaison Group might become a "second power center" in Hong Kong, or an authoritative organization that would go over the head of the Hong Kong government. The resistance was highly emotional. They used their consistent means of publicizing the substance of this proposal by China, widely splitting the media to pressure China into retracting the proposal. There was a steady clamor of opposition for a time in Hong Kong society.

The Chinese explained to the British that the Joint Liaison Group would not be an organ of power, nor one of the implementation of power, but rather one of liaison through consultation and resolution for both sides whenever major issues might arise. It would neither take part in the Hong Kong government's administration, or play an oversight role.

In subsequent rounds of the negotiations, this matter remained deadlocked, and with the rapidly approaching September deadline set for the talks by China, and still no agreement having been reached, the negotiating delegations became very tense, seeming to be able to find no way out of the impasse.

In August, when I returned to Beijing to report on my work, the deputy director of the Central Administrative Office met me at the airport, telling me that all of the central officials had gone to Beidaihe on vacation, and that Ji Pengfei [1213 7720 7378] (state councilor and director of the Hong Kong and Macao Affairs Office) was also there and wanted to see me immediately.

Beidaihe's summer breezes are quite nice, with its miles of beaches being a famous summer resort. Every July and August, the Ministry of Railways has to put on extra special trains for the travellers arriving from all parts of China. So I took a train to the beach, where visitors of all stripes were playing in the surf. At noon, I joined their ranks, taking several "splashes" in the sea (I'm not much of a swimmer, so can only "splash").

The central officials lived in small red-iron-roofed villas formerly built by foreigners, working half the day, and resting the other half. The beaches near their residences were completely another story, with a quiet scene of only a few people.

In the evening cool, I sat under a tree, reporting to Hu Yaobang on recent Hong Kong affairs, telling him about the most recent stalemate in the Sino-British talks. Hu Yaobang said: "Britain has a very poor decolonization record. As the transition period to our recovery of Hong Kong is going to last some dozen years, are they likely to act irresponsibly, by doing what Comrade Deng Xiaoping calls leaving things in a mess? We had better do what we can to prevent this. This is our main consideration in establishing the Joint Liaison Group. As there are of course some matters that may need consultation between our two countries, the group will be beneficial to both countries."

I reported that some Hongkongers were worried about China taking advantage of this group to interfere in Hong Kong's affairs, and that the British did not want to become "lame ducks," after which I said: "I have an idea on how to relieve the concerns of Britain and some Hongkongers. We should make them understand that the Joint Liaison Group will work beyond 1997. As the Joint Liaison Group might interfere in Britain's administration of Hong Kong's affairs before 1997, to become a second power center, might it not also become a second power center to interfere in China's administration of Hong Kong's affairs after 1997? We must let them know that China is not considering the matter in this way. Meanwhile, we might give them some face. In addition, from our own position, there might be certain matters requiring British cooperation after 1997."

Hu Yaobang was delighted with this, asking me to tell the idea to Zhao Ziyang.

The next day after my noon nap, I first told the idea to Ji Pengfei, who did not take a stand on it. But when Zhao Ziyang's secretary phoned me, asking me to go to him immediately, Ji Pengfei said: "Go and tell him your idea. Comrade Deng Xiaoping may have been wanting to discuss just this matter for days."

So I rushed to Zhao Ziyang's office to find him waiting impatiently. It turned out that Hu Yaobang had told him that I had a proposal for breaking the impasse in the Sino-British talks, which he was impatient to learn about, as Deng Xiaoping had called a meeting of the Central Standing Committee that day at 1700 to discuss the matter.

After I had given a brief explanation, Zhao Ziyang, impatiently looking at his watch, asked: "How long do you think the group should extend after 1997?"

As it seemed that there would be no time for details, I replied: "It should not last too long, two or three years perhaps, but no longer than five or six years."

Zhao Ziyang nodded and said as he was rushing off: "The time has come. We will find time to discuss this further."

Three days later, Ji Pengfei told me: "Zhao Ziyang presented Xu Jiatun's idea at the Standing Committee meeting, and it was endorsed by Comrade Deng Xiaoping. Zhao Ziyang has just notified us."

When Li Hou [2621 0683] (deputy director of the Hong Kong and Macao Affairs Office) heard Ji Pengfei's report, he muttered to himself: "We had this idea too... .." His complex facial expression made a deep impression on us.

Before long, China and Britain reached agreement on this matter, with the Sino-British Joint Declaration stating that the Joint Liaison Group would be stationed in Hong Kong after 1988, operating until the year 2000, or three years after "1997."

I also discussed with Ji Pengfei the aviation rights issue. I thought that we should safeguard Britain's rights and interests, while preventing them from monopolizing things. Once the Hong Kong Special Administrative Region [SAR] government was established, Hong Kong ought not to have only a single national air carrier company, nor should that have been the case at the time. I also mentioned this idea to Zhao Ziyang, who agreed that in light of China's civil aviation backwardness, with poor management despite repeated lessons, a Sino-foreign joint-venture air carrier company should be set up in Hong Kong to "stimulate" our civil aviation to introduce foreign management experience.

While Ji Pengfei endorsed my idea, the lack of time, with both sides impatient for the agreement to be initialed, left no time for reaching a specific agreement. So before long, China and Britain were in a dispute over the aviation rights matter.

[3 Jun 93 p 2]

[Text] After 22 rounds and over a year of negotiations, China and Britain initialed in Beijing on 26 September 1984 the Sino-British Joint Declaration, which was later examined and approved by the PRC NPC Standing Committee and the British Houses of Lords and Commons.

The Chinese and British governments agreed that government officials, Zhao Ziyang for the Chinese and Mrs. Thatcher for the British, would sign the Sino-British Joint Declaration on the Hong Kong matter in Beijing on 19 December 1984, officially proclaiming to the world that China and Britain were using the method of peaceful negotiations for a historical resolution of the return of Hong Kong to Chinese sovereignty, pioneering a new order of peaceful settlement of international disputes.

This was a major affair involving the Chinese nation redressing a national humiliation. The Hong Kong and Macao Affairs Office suggested inviting figures from all Hong Kong circles to form a delegation to observe the ceremonies in Beijing. While I and my deputies all approved of this, the name list in the circular put out by the Hong Kong and Macao Affairs Office had only 60-80 names, which was obviously too few.

I had already been in Hong Kong for over a year, having frequent contacts with Chinese and foreign figures and making many friends, so that I had begun to change XINHUA's past order of being "leftist-oriented and narrow-minded." My idea was to make a creative use of every opportunity to further our united front work. The signing ceremonies included leaders of both countries, particularly British Prime Minister Thatcher, for a gathering of certain united front targets that normally had very little contact with us, presenting a very good united front work opportunity. So when making plans for the invitation list, I explained to the coordinating committee officials that in addition to ensuring that all levels had representatives in attendance, we should do all that we could to invite more "rightist" figures, particularly certain British Hong Kong government officials to break through the British Hong Kong government restrictions against its officials having contacts with we Chinese. So the coordinating committee drew up a list of over 100 names, exceeding the number proposed by the Hong Kong and Macao Affairs Office, which agreed through consultation to expand the list to 100 names. After further picking and choosing, the coordinating committee presented a list of 101 names, saying that it was unable to reduce it further, which we then decided upon.

The ceremony invitation list included both Chinese and British figures, with eight British Hong Kong government officials, 10 Executive and Legislative Council members, and executive and legislative leaders and nonofficials observers. British magnates in Hong Kong included the presidents of the Hong Kong and Shanghai Banking Corp, T'aiku, and the Standard Chartered

Bank. (I always regretted that we did not invite the presidents of Jardine Matheson and Hong Kong Power.) In addition, we sounded out certain representative Taiwan figures in Hong Kong, who either did not respond or declined graciously. In short, the list made certain breakthroughs, but also had shortcomings. That is, it was a restricted list, containing elements whose Hong Kong and Macao work committee ideology was not "liberated" enough, including myself.

Once Beijing had approved the list, the Hong Kong Office of the New China News Agency's Foreign Affairs Department went into action to obtain its approval by the British Hong Kong government and those invited, after which I accompanied the group on a flight to Beijing on 18 December 1984 to take part in the signing ceremonies.

At 1800 on the evening of the 19th, the Sino-British Joint Declaration signing ceremony took place in the west wing of the Great Hall of the People. Chinese ruling party and state leaders Deng Xiaoping and Li Xiannian attended the ceremony, with 200 Chinese and foreign reporters, China broadcasting the ceremonies to the world by satellite, and the Hong Kong delegation sitting across the long green felt signing table, observing this historical occasion.

Under the glare of camera flashbulbs, Zhao Ziyang and Mrs. Thatcher signed their names to the declaration documents, then exchanged them to thunderous applause, officially completing the signing of the Sino-British Joint Declaration. Since then, colonial rule ended, and Hong Kong entered a brand new age.

Deng Xiaoping was in high spirits that day, telling a Hong Kong reporter after the ceremony that if his health was still up to it by 1997, he would certainly go to visit Hong Kong. This was very pleasing to the ears of the Hong Kong and Macao figures present, with ones, such as the shipping king Pao Yu-kang and magnates Lee Chia-ch'eng and Ch'a Chi-min, immediately telling me that they were exceedingly hopeful that Deng Xiaoping would come to visit Hong Kong before 1997, and that they wished that I would urge him to do so. When I told this to Zhao Ziyang and Ji Pengfei, they both laughed without responding. I knew that they could not easily take a stand, so pushed Zhao Ziyang a bit, asking "could you not visit Hong Kong?" to which he replied "how could I go?" But of course, he was premier, so could not go without an invitation. Then I asked him, "after your coming trip to Britain, could you not make a visit on your way home?" to which he responded laughingly, "could be, but the formalities would not be simple." I could see that he was somewhat moved.

On our return to Hong Kong, Pao Yu-kang and others again mentioned the matter of Deng Xiaoping and central officials visiting Hong Kong before "1997," discussing who would issue the invitation and where they would stay. I said that: "While Ji Pengfei might come to Hong Kong on the invitation of the British Hong

Kong government, which the Hong Kong Office of XINHUA would encourage, this would not suit Deng Xiaoping, Hu Yaobang, or Zhao Ziyang." To which Pao Yu-kang confidently replied that "there must be a way. If that would not work, we could take action personally." Even though he had private relations with Deng Xiaoping, I felt that there was not much possibility of this, but did not say so.

As to the matter of where Deng Xiaoping would stay in Hong Kong, with hotels always being a problem, Pao Yu-kang took me to his stone-walled villa to see if it would be suitable. Asia Watch boss Ch'iu Te-ken also invited me to his home for a meal, to see if central leaders might stay with him. While their homes were both very spacious, with Pao Yu-kang's villa being surrounded by very beautiful mountains and seascapes, they could accommodate only their major guest, having no arrangements for accompanying security personnel. So with the consent of the working committee and the approval of Ji Pengfei, I bought a red-pillared residence in which Chianing Group President Ch'en Sung-ch'ing used to live, a compound with seven dwellings, as a reception center in which visiting Beijing leaders could stay, as well as a place where I could entertain my Hong Kong friends at ordinary times. After Ch'en Sung-ch'ing Enterprises went bankrupt, this seven-building residence was confiscated and sold to Pao Yu-kang, enabling me to make the deal very quickly. When I bought it, some of my colleagues were concerned that its high price would bring some reaction, but I persuaded them that it could be bought simply as a real estate investment. When I bought it, this seven-building residence went for HK\$47 million, but is now worth possibly HK\$100-\$200 million. So when I heard after I had left China that this had become one of my "crimes," I really did not know whether to laugh or cry.

[4 Jun 93 p 2]

[Text] Once China recovers its sovereignty over Hong Kong in "1997," it will certainly not put socialism into effect there as in the rest of China, but rather will preserve Hong Kong's existing capitalist system unchanged for a long period to come. While the Central Committee first proposed this period to be 50 years, Hu Yaobang later said publicly in a speech that it could last "a century or longer." This overall principle and mission meant that our united front work in Hong Kong would be markedly different from that in the rest of China.

My understanding of this was as follows: Under the leadership of a Marxist political party—the Communist Party, the long-term preservation of a capitalist system unchanged had never been mentioned in the Marxist-Leninist classics. Lenin's talk of using capitalism referred to using it in a partial sense. So while Hong Kong is a part as far as all of China is concerned, capitalism would be used there in an overall and long-term sense as far as the Hong Kong region itself is concerned. As to how to provide for the organizational duties of the Communist Party of Hong Kong [CPHK]

around "1997," whether they were to be called "leadership" or "promotion" (which I will discuss in further detail later), a "one country, two systems" policy was to be practiced there, to implement the principle of preserving the capitalist system unchanged for a long time. And as unchanged for a long time meant not only preserving the status quo, but required as stated in the Sino-British Joint Declaration "maintaining prosperity and stability," the CPHK leading organs would have to learn how to keep Hong Kong capitalism prospering steadily, as well as growing continuously to achieve an order of long-term stability. As to the CPHK organization, this proposition was an absolutely brand-new task and challenge.

This meant studying Hong Kong's past development experience, as well as its status quo to find its development laws, which would require a reassessment of Hong Kong through a full-scale, systematic, and thorough study of Hong Kong society, as a prerequisite for a reevaluation of capitalism. A reevaluation of capitalism would begin with a new understanding of Hong Kong. A new understanding of Hong Kong would in turn mean a reassessment of capitalism to understand its post-war reforms and evolution to adapt to its development laws, acquire new growth experience, and strive to keep Hong Kong capitalism prosperous and stable.

Deng Xiaoping had said repeatedly that we would not practice in Hong Kong the "four adherences," which include the leadership of the Communist Party. (Note: The four adherences are adherence to the socialist road, the people's democratic dictatorship, the leadership of the CPC, and, Marxism-Leninism and Mao Zedong Thought.) Deng said that the principle of "Hongkongers ruling Hong Kong" meant "Hongkongers ruling Hong Kong" premised on an unchanged capitalist system, and "Hongkongers ruling Hong Kong" with the key power being the bourgeoisie, not "Hongkongers ruling Hong Kong" with the working class as the key power, which would make it impossible for Beijing to send people to have "Beijingers ruling Hong Kong."

This meant that PRC agencies, the Hong Kong and Macao Working Committee, or the Hong Kong Office of XINHUA could not send personnel to take part in ruling Hong Kong either. So while Mao Junnian [3029 6874 1628] was a genuine Hongkonger, he was also a deputy director of the Hong Kong Office of XINHUA and an open Communist Party member, meaning that regardless of his future individual stands, if he took part in "Hongkongers ruling Hong Kong" as a Communist Party member, he would be acting as a CPC representative in ruling Hong Kong both in reality and in concept. Even if a few covert and secret Communist Party members took part in ruling Hong Kong as Hongkongers, they would still be subject to the Basic Law and Hong Kong's laws and regulations. If the party issued "directives" that did not conform to the Basic Law and Hong Kong's original laws and regulations, they should refuse to carry them out unless the Basic Law and Hong Kong's

original laws and regulations had been amended according to legal procedures.

In short, the future "Hongkongers ruling Hong Kong" was to be characterized by a bourgeoisie-dominated, multi-class, joint administration. It would differ both from mainland China's working-class dictatorship or people's democratic dictatorship (whose future development might change through economic reform—this being my current view), as well as from the colonial autocratic government under British Hong Kong rule. It might differ also from the bourgeois democratic administrations of certain western superpowers, in which the working classes have little influence.

While I exchanged views with Zhao Ziyang and Ji Pengfei on this matter, we did not have any in-depth discussions of it. Zhao Ziyang's response was quite simply that "we should control Hong Kong's affairs less, the less the better," seeming to show that he agreed with me. When I conjectured that "the first chief executive of the Hong Kong SAR might very well have close relations with the British," neither of these leaders expressed opposition to that.

These understandings became not only my grounds for united front work, but also my key considerations in the later drawing up of Hong Kong's future political-system model. Our united front work in Hong Kong at the time was aimed at making friends, striving to gain the confidence of our Hong Kong compatriots, and seeking out and cultivating talent for ruling Hong Kong after 1997.

Deng Xiaoping's idea was that a united front in Hong Kong would not have to be like that in the rest of China—one of patriotism and endorsement of socialism and Communist Party leadership. His concept of "a broader united front" required only that Hong Kong and Macao united front targets "be patriotic and love Hong Kong." This was in line with the current realities in Hong Kong and Macao, as it could more widely unite all Hong Kong and Macao figures to achieve the "one country, two systems" design. All of my united front work ideas and methods grew out of Deng's thoughts in this area.

[5 Jun 93 p 2]

[Text] In a speech to the Standing Committee, Deng Xiaoping once advocated that Hong Kong and Macao united front workers "dare to be macrorightists and super spies, boldly making contacts and friends." This is what I proceeded from in planning a united front order.

The Hong Kong and Macao Working Committee and the Hong Kong Office of XINHUA had traditionally ranked all social circles by political inclinations as leftist, centrist, or rightist. The public used similar rankings. The so-called macrorightists referred to big bourgeoisie figures in the Hong Kong social superstructure, such as those with close relations with Britain, the United States, and Taiwan.

Since I met Chung Shih-yuan [6945 1102 0337], Teng Lien-ju [6772 5571 1172], and Li Kuo-wei [0448 0948 0251] at the Chinese University Marlin Center, I established a "gentleman's agreement" with them on regular contacts. Chung Shih-yuan was the chief member of the Executive Council, the top Chinese in the Hong Kong government. Teng Lian-ju emerged from the British financial group T'aiku, being a top talent cultivated and held in high regard by the British government and British financial consortiums, later being allowed by the British government to become a member of the British House of Lords, and being made a Lord by the Crown, showing the depth of her service. Li Kuo-wei came from an aristocratic Hong Kong family, becoming chairman of the board of the Hang Seng Bank, belonging to the Hong Kong and Shanghai Banking Corp, and being a key figure in the Chinese banking world. My idea was to establish regular direct contacts with them to understand the Hong Kong strata that had close ties to Britain, as well as the British Hong Kong government's thinking. We met regularly, with Li Chuwen [2621 0328 2429] (deputy director of the Hong Kong Office of XINHUA) accompanying me when he was in office, and Qiao Zonghuai after Li had left. We mainly dined together, with mostly them inviting us to Li Kuo-wei's Hang Seng Bank Club, but sometimes we inviting them. During these meals, as we exchanged views on Hong Kong matters quite cordially, we steadily increased our mutual understanding and trust.

In later meetings, they asked for contacts with the Hong Kong Office of XINHUA in their capacity as government executives and legislators. But the Hong Kong and Macao Affairs Office opposed this, persistently refusing to acknowledge that their contacts with us represented the Executive and Legislative Councils, holding that they were trying to take advantage of the opportunity to make Chinese agencies recognize the standings of these two government bodies. So I adopted the method of compromise, not only maintaining private contact with them, but also inviting all members of both bodies to banquets on Spring Festival and National Day, as well as accepting their collective dinner invitations to me.

Chinese recognition of these two Hong Kong governing bodies became a sensitive issue in Hong Kong. When reporters asked me if inviting the members of both bodies to banquets was not recognition, I responded simply that "respect does not equal recognition," as my use of the term "respect" in my speeches at these banquets was not in violation with Beijing's stand. I felt that their standing in Hong Kong middle and upper levels and even their confidence among some lower ones gave them quite a bit of influence. As some of these figures might have a certain standing in the future SAR government, winning them over seemed extremely necessary both at the time and for the future.

To begin work among senior Chinese officials in the British Hong Kong government, former General Political Department Director Xiao Hua [5135 5478] told me that a female member of his subordinate Cultural Work Group

wanted to come to Hong Kong, but as her adoptive father Chang Yu-hsing [1728 2589 5281] was president of the Hong Kong municipal political legislature, the Hebei provincial party committee refused her permission, so I was asked to help. Once I understood the situation, I sent a special telegram to General Secretary Hu Yaobang, in hopes that he would permit her to come to Hong Kong to help develop friendly relations with Chang Yu-hsing. Hu Yaobang not only agreed, but even directed the Ministry of Public Security to send a special agent to the Hebei provincial party committee in Shijiazhuang to expedite the matter. So it was through her introduction that I made contact with Chang Yu-hsing.

At that time, all contacts with the Hong Kong Office of XINHUA by Chinese officials in the Hong Kong government, including accepting invitations to dine, needed the prior approval of the British Hong Kong government. Despite this, we still took the initiative to strive for more frequent contacts with certain figures. We later invited figures, such as Police Chief Li Chun-hsia [2621 0689 1115] and his British predecessor, to dine, initiating certain individual contacts.

Aimed at the goal of making friends and advancing mutual understanding and cooperation, we steadily increased our contacts with senior officials in the Hong Kong government, with quite a few friends being made by not only myself, but also by my other colleagues in the Hong Kong Office of XINHUA. As these friends were quite familiar with the British Hong Kong government's policies and conditions, with many of them likely to continue in office in the SAR administration after "1997," they would play a great role in the smooth continuity and transition of political power.

Many of the so-called macrorightists in cultural and media circles were opposed to communism and even to the PRC. Some even regularly published articles criticizing the PRC, one of which was the "Hong Kong Prospects Study Society." But these groups differed, with many expressing opposition to the PRC, while being patriotic toward the Chinese nation, and others "criticizing Mao but not Deng," i.e., criticizing Mao Zedong but endorsing Deng Xiaoping, holding that Deng's reform and opening advocated taking the capitalist road.

[6 Jun 93 p 2]

[Text] Quite a few of Hong Kong's older cultural and media figures, columnists, critics, and reporters had come to Hong Kong from mainland China, dissenting to a certain extent with and even hating the Communist Party, with some even having experienced PRC jails and their accompanying devastation and bitterness.

So when making contacts with these people, we took a mild stand, and when ideological gaps temporarily separated us, first tried to shrink the gaps, by "striving for great unity and the coexistence of dissidents," and through making friends on the basis of patriotism or love for the Chinese nation and national reunification. When

figures from the Prospects Society first met with us, they sharply criticized the PRC, while expressing no opposition to the return of Hong Kong to the motherland. When CHIU-SHIH NIEN-TAI editor-in-chief Li Yi [2621 1837] asked me "are we not patriots?" I responded with no hesitation that "you are patriots," which I still believe to this day. I said on another occasion at the time that: As we are together on the major matters of loving the Chinese nation, endorsing Deng Xiaoping's reform and opening, and approving of Chinese reunification, we can tolerate dissent in the area of criticizing Mao Zedong and the Communist Party.

At the time, the press carried almost daily anti-communist articles, sharply mocking, cursing, and satirizing the PRC, with the well-read MING PAO columnist, the revered Mr. Ha, also having come from mainland China to Hong Kong, as well as having worked for a Chinese agency in Hong Kong. As this gentleman was quite a drinker, my contacts with him involved eating and drinking, in which I allowed myself to drink a few cups with him, discussing neither his anti-communist articles or politics. As his true name was Xu Guo [6079 0948], giving us the same surname, he began to call me his relative after a few cups had been passed, closing the distance between us and making friends. Regretably, he passed away shortly, ending the possibility of further mutual contacts.

I believed that a dialogue with opponents held the possibility of cooperation, as well as of reducing obstacles, with some possibly becoming helpers. Of course, we could not say that opponents' dissent was not without correct parts as, from the Marxist stand, everything is always dividing into two and developing, truth is relative, and advice from others may help one overcome one's own shortcomings, so that we should always pay attention to accepting the correct parts of their views.

My basic approach to my Hong Kong united front work was to treat people with sincerity, trust, politeness, and respect. Dealing with friends meant mutual sincerity, with neither a hypocritical show of friendship or political trickery. The way of getting along is to not tell lies, and when something cannot be said, temporarily not saying it or saying it in another form. Equal treatment means mutual politeness to both the "great" and the "small," including the open-minded attitude that "at least one of every three people has something to teach me." Another important principle is tolerance, particularly of those who oppose or even rebuke one to one's face, without which it would be hard to get along with those who

oppose us, and impossible to try to win them over. As to opposition criticism and media, while we can debate them in the press when necessary, we can still continue to be friends. In meetings, we can argue some, less, or not at all. We can even simply be friends without speaking of politics, to discuss certain issues through an exchange of views between friends. As friendships strengthen, we can debate in increasing depth with dissenting adversaries. We can steadily strengthen friendships to gradually change our adversaries both qualitatively and quantitatively. Regretfully, I did far too little in this area, missing many opportunities.

Yu Chao-ch'i [0151 0340 7784], chairman of the board of the Hong Kong-China Joint Bank, was the vice president of an international anti-communist organization (whose president was Taiwan's Ku Cheng-kang [6253 2973 4854]). When someone offered to introduce us and suggested that I go to meet him, I agreed. As he was older than me, the Chinese custom of respect for the elderly dictated that I should "go to him." When we met in his office, a large portrait of Chiang Kai-shek was hanging in the center of the wall, with a Taiwan KMT government red, white, and blue "national flag" beside it. While he was over 80 years of age, he appeared still quite healthy. In our meeting, we sat across from each other, with me facing Chiang Kai-shek's portrait. Yu Chao-ch'i expressed great admiration for the current mainland Chinese policy, with much praise for Deng Xiaoping. He said: "As the Communist Party is now changing for the better, having abandoned communism, why not change its name? Instead of calling it the Communist Party, why not call it the Democratic Party or something else?" He spoke of the decades of war with the Communist Party, while I brought up the background of their retreat from the mainland to Taiwan, as well as certain old grievances. I took offence at neither his attitude or methods, saying that: "The past accounts between the KMT and CPC, regardless of who owes whom, are past ones. As we are all Chinese, instead of recalling the past, we should face up to the present and, in the interests of common Chinese prosperity and national reunification, become friends in cooperation again. While mainland China is now reforming and opening up, the Communist Party has certainly not abandoned communism so, while your ideas may be well-intentioned, they are misinformed. But thank you for your good intentions anyhow." My subsequent meetings with this old fellow went off quite well, and he made a particular habit of sending me small gratuities at New Year's and all other festivals.

NATIONAL AFFAIRS, POLICY

Guo Zhenying on Direction of Economy for 1990s

93CE0788A Beijing GUANLI SHIJIE [MANAGEMENT WORLD] in Chinese No 3, 24 May 93 pp 16-26

[Article by Guo Zhenying of State Council Research Office: "Direction of China's Economy for 1990s"]

[Text]

I

In his report on the work of the government, comrade Li Peng pointed out: The basic tasks in economic development for the next five years are: "To put into practice the spirit of the 14th National CPC Congress in every field of work, to seize the opportunity, to quicken the pace of reform, opening up and modernization, and to improve economic performance by relying on an optimized structure." This is our basic task as well as guiding principle. We should understand its meaning well and grasp it as the focal point of our work. For a considerably long period of time, we must focus our attention to develop infrastructural facilities, basic industries and agriculture. We must also pay attention to developing the tertiary industry, opening wider to the outside world, promoting science, technology and education and raising people's living standards.

A. Development of Infrastructure and Basic Industries

The development of infrastructure and basic industries usually means the key projects for energy, transportation, communications and important raw and semi-finished materials. Since the founding of new China, particularly in the 10-odd years of reform and opening to the outside world, tremendous achievements have been made in China's major construction, particularly infrastructural facilities and basic industries. The developments in this respect are especially outstanding during the period of the Seventh Five-Year Plan. Despite the achievements made in infrastructure and basic industries, the development of the entire national economy still fails to keep pace with the needs of the socialist modernization program.

1. There remains a significant imbalance between transportation and industrial development. In general, when the total industrial output is raised by 1 percent, the total volume of railway transportation should be duly increased by 0.5 percent. This is to say that a ratio of 1:0.5 is to be maintained between the two. Nevertheless, this ratio has become more and more improper in recent years. The ratio between the industrial growth rate and the rate of growth in total volume of transportation from 1987 to 1992 was 15 percent to 4.2 percent. That means 1:0.28. Therefore, it is hard to ship things out of and bring things into many large cities. This situation is even more serious in transporting some important supplies like coal that has been kept in stock for a long time. Often, road surfaces are in poor shape, trunk highways are congested, ports are over-crowded, causing delays in loading and unloading cargo. The situation is getting

worse and worse. All this shows that the problem in transportation is considerably acute.

2. The development of energy industry and the entire industrial development are not well coordinated. According to statistics, the rate of growth in China's energy production is much lower than that of the GNP. It does not mean that they must grow at the same rate. The growth of energy industry is just too slow, making the energy supply falling far short of demand. Right now, about one-third of the production capacity in the nation is not being used, creating tremendous waste and loss in society.

3. The contradiction between the raw and semi-finished material industry and the processing industry sharpens. As compared with the rate of growth of the processing industry, that of the raw and semi-finished material industry is much lower also. The January 1993 general index of capital goods rose as much as 31.2 percent and the prices of rolled steel, cement and raw and other materials also increased on a large scale. This is positive proof. To meet domestic needs, we have to import a large quantity of raw and semi-finished materials for quite a long time.

Reasons are many-sided for the slow development of infrastructure and basic industries. There are subjective as well as objective factors. As for subjective factors, the main problem is that in the past, there seemed to be an eagerness for quick successes and instant benefits in the development of economic construction. People often pay more attention to immediate interests instead of long-term interests. In addition, the faulty system drives limited funds into the processing industry. As for objective factors, investments needed for the development of infrastructure and basic industries are usually large. It takes a long time to finish building the facilities and industries and to achieve economic results. The more oil wells and mines we dig, the deeper they become. The more railways and highways we repair, the more culverts, tunnels and bridges we need to build. With the continuous rising cost of building materials, our investments become larger and larger. According to the information from a relevant department, the cost of construction work for adding a ton of raw coal was 74 yuan during the period of the Fifth Five-Year Plan, 118 yuan during the period of the Sixth Five-Year Plan, and 164 yuan during the period of the Seventh Five-Year Plan. This cost is expected to reach 1,200 yuan during the period of the Eighth Five-Year Plan with a 3.3-fold increase in 20 years. The cost of adding 10,000 kwh of electric power was 1,279 yuan during the period of the Fifth Five-Year Plan, 1,802 yuan during the period of the Sixth Five-Year Plan, 2,686 yuan during the period of Seventh Five-Year Plan. This cost is expected to reach 3,237 yuan during the period of the Eighth Five-Year Plan with a 1.5-fold increase in 20 years. The cost of adding one km of railway was 1.89 million yuan during the period of the Fifth Five-Year Plan, 2.67 million yuan during the period of the Sixth Five-Year Plan, 4.1

million yuan during the Seventh Five-Year Plan. This cost is expected to reach 5 million yuan during the Seventh Five-Year Plan with a 1.6-fold increase in 20 years.

To prevent the building of infrastructure and basic industries from restraining the development of the national economy, we must define the key points and increase investments. Our major tasks for the next five years are as follows:

a. Transportation and Communications

The railway industry is one that the state seeks to develop on a priority basis. It is the key to building a comprehensive transportation system. We must keep in mind our future demands on railway transportation, when we develop the market economy and promote the national economic and social development at the end of this century and at the beginning of the next century. We must regard the construction of major thoroughfares as our major task, while building railways of a regional nature. We should speed up the construction of the north-south trunk lines, coal transport trunk lines and those in northwest China; and start to build high-speed special passenger lines and new east-west trunk lines. Meantime, we must continue to carry out technical innovations on existing railways, further increase the rate of growth in building electric and double-track rail lines, enlarge the capabilities for transportation as soon as possible and improve services. Emphasis must be placed on building the Beijing-Shenzhen line, the Yangzhou-Huangshan line, the Baoji-Zhongwei line, the Houma-Yueshan line, the Nanning-Kunming line, the Xian-Ankang line, the Lanzhou-Xinjiang double-track line, the Zhejiang-Jiangxi double-track line, the Jiaozuo-Liuzhou double-track line and the Baoji-Chengdu double-track line; electrifying the Beijing-Guangzhou line, the Harbin-Dairen line, the Chengdu-Kunming line and the Beijing-Shanghai line; and constructing the Beijing West Railway Station for passengers. We must construct 8,000 km of new railway lines, 6,000 km of electric rail lines, 5,000 km of double-track rail lines between 1993 and 1997. We must insure that the volume of railway freight reaches approximately 1.8 billion tons by 1997.

Emphasis must be placed on the construction of main state highways and trunk lines connecting more than 100 major cities, transportation junctions and economic centers in China. We must continue to build the four main high-grade freeways along the coast, the Chang Jiang, and the Lianyungang-Lanzhou line in a crisscross pattern. We must also basically ameliorate the situation of over-congestion and traffic jams between large and medium-sized cities and the main ports, trunk highways and junctions of various means of transportation; and duly build highways connecting various counties, townships and poor areas. During the next five years, China must build 100,000 km of new highways and 130 deep-water berths capable of handling 10,000 ton ships, use advanced technology to renovate a large number of old

docks, and build facilities for transporting coal, handling containers, loading and unloading cargo with conveyors and accommodating passengers. We must further improve the overall geographical distribution and the internal structure to basically solve the problem of abnormal harbor congestion so that there is no need for ships to wait for a long time for their turn to load or unload their cargo. It is necessary to develop a support system to insure and supervise maritime safety, and raise the capability in insuring traffic safety. For inland water transport, we must tap new resources for funds and adjust our investment structure to accelerate the development of facilities along the Chang Jiang, the Zhu Jiang, the Heilong Jiang, the Beijing-Hangzhou Canal and the Huai He. For the next five years, China must open up 4,000 km of new waterways. We must focus our attention to improving conditions for navigation in areas opening to the outside world and in districts where industries abound; and build more water channels capable of handling 1,000-ton ships. We must duly develop a large number of highly efficient navigational facilities so that ships can directly sail from tributaries to the main rivers and from the rivers to the open sea. We must make sure that a system of inland water transport for water-land transshipment will soon take shape.

Efforts must be made to accelerate the development of facilities for post and telecommunications, strengthen connections between the urban and rural areas by mail and telephones, and gradually build a communication network linking China with foreign countries in all directions by using satellites, fiber-optic cables, program control and other advanced technologies. For this, we must mainly adopt the following measures: 1) When a local government, a relevant department or an unit participates in a communications project, payments must be made for the use of the project in various forms. When the project is financed by a certain locality, a separate account must be kept as a special fund for communications with a running balance, and investors' interests be protected by asking users to share expenses or repay the capital with interest. 2) Although foreign businessmen will not participate in management, they may make comprehensive investments in telecommunications. Their investments will be compensated by receiving "fixed or installed payments." 3) We must do a good job in handling the relation between public communications network and specialized communication lines in accordance with the principle of "joint development and mutual benefits." We must support users or units in installing, upgrading or expanding telephone exchanges. We may allow special communications networks or telephone exchanges of large enterprises in any county or any district below the county level to have access to the nearby long-distance telephone network in disregard of restrictions imposed on them because they belong to different administrative areas. We may also adjust the rate of fees for linking the local city or county telephone network with the national network. We may

also exempt charges to any regional specialized proprietary communications network that is built and maintained by an enterprise or unit to use repeaters to cross counties and cities in joining the long-distance network. 4) We must usher in a mechanism of competition, and decontrol communication businesses which are not basic in nature such as making inquiries via radio. We must further develop air transport and aircraft manufacturing industry, quicken the pace in building airports with modern facilities and open up new air routes.

b. Energy Industry

In developing coal industry, we must transform old collieries in East China, energetically develop and make rational use of the natural resources in central and western regions, renovate and improve the local collieries and those in various townships, and increase the annual coal output to approximately 1.3 billion tons by 1997.

We must vigorously develop power industry and increase the total capacity of new generator installations by 65 million kw in the next five years. For thermal power generation, we must take both coal production and power generation into overall consideration. Emphasis must be placed on building thermal power plants in major coal producing areas, and strengthen the development of electric power grids. For hydropower generation, it is necessary to make full use of China's abundant water resources to quicken the pace in promoting hydroelectric power generation. In the development of hydropower generation, we must follow the principle of building large, medium-sized and small power plants, combining high water heads with low ones, building hydropower plants step by step and promoting multi-purpose use of hydropower. We must pay full attention to building hydroelectric plants along the upper reaches of the Huang He, the upper and middle reaches of the Chang Jiang and the Hongshui River. Nuclear power plants should be built at selected places in the coastal region where electric power is in great shortage. Mainly we must concentrate our efforts on building the Qinshan and Guangdong nuclear power plants to develop the nuclear power industry.

For petroleum industry, we must adhere to the principle of "maintaining stability in China's eastern region, while accelerating the development in the western region." We should actively develop natural gas and offshore oil and gas drilling. While continuously improving and renovating old oil fields such as the Daqing and Shengli oil fields, we must also concentrate our efforts in the prospecting and development of new oil fields in Tarim and Turpan areas in Western China, increase the output of crude oil to maintain the steady production in the entire petroleum industry. In addition, energy, particularly petroleum, is in short supply in China, we must try to conserve it and use it more efficiently.

c. Raw, Semi-Finished Materials Industry

China's iron and steel industry is of considerably large scale. Right now, the main problem is that it cannot satisfy the needs of customers in all sectors in variety and quality. In developing the iron and steel industry, we must continue to follow the path of tapping the latent potentials, carrying out renovations and filling in the gaps to form a complete system. To increase production, we should mainly rely on renovating and expanding our existing enterprises, help them improve their technical standards, and lower the consumption of energy and raw and semi-finished materials. We must pay attention to turning out more products that are of high grade and in great demand, and improving production quality. While accelerating the production of alloy steel and other high quality rolled steel that are in short supply, we must curtail the production of wire rod, steel for general use, welded pipes and other products in excessive supply, and strive to increase the production of petroleum pipes, light rail, cold rolled silicon steel, tin and zinc-plated sheet steel, strip steel, seamless steel pipes and other products in short supply so as to reduce imports. Meanwhile we must develop more mining projects, turn out more refractory materials, strengthen the weak links in iron and steel industry and harmonize the internal relations within the industry. We should strive to raise the output of steel to 94 million tons by 1997, and work hard to improve the quality of steel and increase varieties.

In developing the nonferrous metal industry, we must give priority to the production of aluminum in accordance with China's own characteristics in natural resources. Particular efforts must be made on the production of aluminum oxide. We must also develop the production of other nonferrous metals.

In developing the chemical industry, we must turn out more products for farming such as chemical fertilizers and insecticide, and energetically develop chemical raw materials and refined industrial chemicals. In the development of petroleum industry, we must do a good job in intensifying the processing of crude oil and producing more ethylene to increase the output of synthetic fiber, plastics, and rubber, organic industrial chemicals and chemical products for agriculture, to satisfy the needs of all the sectors of the national economy and to provide abundant supplies to the market. We should strive to increase the output of ethylene to 4.8 millions and that of chemical fertilizers to 26 million tons by 1997.

In developing the building materials industry, we must vigorously develop new and high-grade products, and upgrade materials for wall construction.

1. In the development of infrastructure and basic industries, we must not only pay attention to the aforementioned points, but also solve the following problems: First, the key to developing infrastructure and basic industries is to solve the problem of funds. According to the existing system, it is difficult to achieve the desired

results by relying on the support of the central authorities. Therefore, we must arouse the enthusiasm of all the departments concerned. The central authorities should provide assistance, while the local authorities and everyone else should pool their efforts. Right now, about 60 percent of the construction funds of the central authorities are used in the development of infrastructure and basic industries, while the extra-budgetary funds of the local authorities and enterprises used for this purpose are limited. Our experience in the past few years shows that there are many problems, if everyone relies on the central authorities alone to invest on all the industrial construction projects for all the people. Therefore, we must adopt strong and effective policy measures to encourage the various localities, enterprises and even individuals (through the purchase of construction bonds) to build infrastructure and basic industries. Only by doing so, will it be possible for us to do a good job in developing transportation and energy industry and turning out more important raw and semi-finished materials. Thus, we must form a new investment mechanism through reform. (a) We should make sure that construction funds in the hands of the governments at all levels be mainly used in developing key projects for infrastructure and basic industries. In general, they should no longer be used in developing the processing industry and business type programs. (b) We should expand the market for funds, develop various forms of joint and share-holding investments, implement the principle of whoever invests will benefit, and flexibly make use of the interest rate, taxation and interest subsidy as means to attract funds. (c) We should make use of price adjustment to set up special construction funds for coal, power, petroleum and transportation industries. (d) We should energetically channel foreign investments to developing infrastructural facilities and basic industries. We must regard these as tasks of a major policy matter.

2. We must earnestly solve the problem of unreasonable price parity within the industry. The excessive low prices in basic industrial products and transportation constitutes a problem that has not been solved for a long time. In recent years, to whip up the enthusiasm of the enterprises in this connection for production, we have continuously increased the proportion of the products that they may market on their own, and objectively formed the "dual price system." This system has quite a few drawbacks. It has not only created turmoil in economic order, but also prevented the enterprises from fulfilling their plans in producing and marketing their products according to the state plan. Now is the time to solve this problem. To improve the price system and readjust the unreasonable price parity is aimed at gradually eliminating the "dual price system" and implementing a unitary price system. First, we must turn the dual price system for coal that is solely distributed by the state to a single price system. After that we will gradually delete more products from the "dual price system." In short, in carrying out price reform, we must gradually increase the price of basic industrial commodities and

the charges for the use of key infrastructural facilities so that there will be a reasonable profit margin for the producer.

3. To vigorously economize the use of energy, raw and semi-finished materials, water resources and transportation facilities is an important link in breaking through the "bottleneck" in developing infrastructure and basic industries. Under no circumstances should we ignore this point. In the course of tackling this problem in the development of infrastructure and basic industries, we have implemented the principle of both developing the facilities and industries and practicing economy. We have not only scored tremendous achievements in production and construction, but also attained good results in practicing economy. According to information from a relevant department, China's GNP in 1989 grew by 1.24 times or more than double that in 1980. However, the energy consumption in 1989 only rose by 59.3 percent over that in 1980. That is to say that more than half of the growth of the GNP in the previous nine years was attributable to practicing economy and structural adjustment. Nevertheless, China's energy consumption index and its consumption of other materials remain high as compared with those of some economically developed nations. The potential to economize the use of energy and other materials is still high in China. Right now, China's per-unit material consumption is not only much higher than that of developed nations, but also higher than that of many developing nations. China's energy consumption in creating \$100 million GNP is 2.5 fold of that in India, 3.3 fold of that in the United States, and over 6-fold of that in Japan, France and Brazil. Its consumption of rolled steel is 1.3 fold of Russia and 3.7 fold of the United States. Although conditions in China are different from those in these countries and there exist many incomparable factors, we can still see that China's potential in economizing the use of energy and materials remains great. So long as all the departments concerned can practice economy, adopt effective measures, strengthen management, tap the latent potential, and insure that an even larger portion of the growth of our GNP is attributable to practicing economy and lowering consumption, our efforts in this connection will be equivalent to increasing production, and our public wealth will grow and grow. If we do not exert strenuous efforts in this connection, our energy, raw and semi-finished materials and transportation facilities will never be able to satisfy the needs no matter how hard we work to provide more energy, materials and transportation facilities.

B. Agricultural Issues

Rural economic prosperity is the foundation in quickening the speed in the development of the national economy and the pre-requisite to become well-to-do in rural areas. We must give top priority to agriculture, and guard against the tendency of neglecting and slackening our efforts in carrying out farming. We must forge ahead in giant strides from traditional farming to modernized agriculture, and push our grain production to a new

height of 950 billion kg by 1997, while developing a highly efficient agriculture that provides greater and better yields. Efforts must be made in developing agriculture, forestry, animal husbandry, sideline production and fishery, and increase the production of economic crops and nonstaple food on a large scale. We must energetically develop rural enterprises and notably raise the proportion of nonfarming industries in the total rural output value.

We must reassure the implementation of our rural economic policy, and reform the rural economic system and operating mechanism. We should try to stabilize for a long time to come, and constantly improve the responsibility system, the main form of which is the household contract that links remuneration to output and the system of unified management combined with independent management. We must energetically develop diverse forms of collectivized agricultural services and gradually increase the economic strength of collectives, as actual conditions in various places allow.

We must strive to improve basic conditions for production in agriculture. Efforts must be made in protecting and making full use of the existing farming land and expand the area planted with fine-quality crops. We must stabilize the output for grain and cotton by maintaining the area sown to grain crops at approximately 1.7 billion mu and that to cotton at about 90 million mu. We should further develop the industry in support of agriculture, and increase the supplies of chemical fertilizer, insecticide, plastic films for farming, agricultural machinery and electric power. It is necessary to increase multi-channel and multi-form investments in agriculture, and support the development of infrastructural facilities in agriculture, particularly projects in realigning large rivers and lakes such as those to divert water from south to north, use water from the Huang He for irrigation in Shanxi, harness the Huai He and Tai Hu, and increase China's capability in resisting natural disasters. We must vigorously develop science, technology and education in support of agriculture; gradually turn scientific research in agriculture to the direction of helping develop a highly efficient agriculture that provides greater and better yields; and insure that results in science and technology become factors to increase agricultural production as soon as possible. We must actively build a comprehensive service network for farming techniques, make sure that each county has its own center for the propagation of agricultural techniques and do a still better job in improving services in dissemination of agricultural technology.

We must continue to develop township and village enterprises. With market needs as a guidance, township and village enterprises in the coastal areas of the eastern region must continue to improve and upgrade themselves. Those in central and western regions and areas inhabited by minority nationalities should build processing industries for local natural resources and labor-intensive industries, and quicken their pace in developing them. It is necessary to make overall arrangements

for the rational geographical distribution of township and village enterprises and for the development of medium-sized and small cities and townships, and to quicken the pace in promoting rural industrialization, urbanization and modernization.

We must reform the rural system for commodity circulation. Efforts must be made in expanding and improving the rural market system with the wholesale market as the center. We should further decontrol prices for the purchasing and marketing of farm products including grain and cotton, and strengthen the regulatory role of the market in the rural economy. We must set up a multi-level system for the storage of farm products, regulate supply and demand on the market and overcome difficulties in buying and selling farm products. In areas where prices for the purchasing and marketing of farm products are decontrolled, it is essential to set the lowest prices in protection of farm products. We must earnestly clean up and firmly stop various unreasonable charges, arbitrary fund collections and apportions, and realistically reduce the financial burdens of the peasants.

C. Tertiary Industry

A flourishing tertiary industry is one of the important features of a modern economy. Right now China still mainly relies on its secondary industry to promote its economic growth. This pattern of growth is connected with the traditional system of planned economy. It prevents people from leading a comfortable life and the nation from maintaining a steady and quick tempo in developing its national economy. To change this situation, it is necessary to greatly push the tertiary industry forward.

We must proceed from actual conditions, set a reasonable goal and rate of growth in developing the tertiary industry, and specify the focal points and the trades that play a leading role. While developing transportation, post and telecommunications, science, technology and education, we must also emphasize the development of other trades that serve production and the people. We must vigorously improve services in commodity circulation, banking, information, advertisement and other consulting services in law, accounting and auditing. To meet the needs in promoting economic developments and opening to the outside world, we must actively and reliably develop real estate business and tourism. Efforts must be made in helping enterprises change their operating mechanism, and quicken the tempo in developing the system of social security, social welfare and relief work. In light of the changes in the pattern of consumption of urban and rural residents, we must energetically develop the service network in all forms of ownership, and increase the types of services and expand the scope of services. We must achieve the goal of invigorating one trade after another, enlivening one sector of the economy after another and helping a group of people after another to become well-to-do.

Governments at all levels must regard the development of the tertiary industry as their major task, strengthen their leadership, do a good job in planning and include such development as a long-term project in the national economic plan for each fiscal year. Most enterprises and units in the tertiary industry must become business-oriented instead of running themselves as public welfare facilities and nonprofit institutions; implement an independent accounting system; make their own management decisions; and assume responsibility for their own profits, losses and risks; and establish a lively mechanism of self-development. It is necessary to call upon the initiative of the state, collectives and individuals, and rely more on the social strength in developing the tertiary industry. Based on the existing foundation, we must gradually separate the service facilities from the enterprises, government departments and mass organizations; and socialize and professionalize such services. Efforts must be made to avoid starting new services blindly. We must pay attention to the training of personnel with special skills, readjust the policy detrimental to the development of the tertiary industry and create conditions to help people in different trades to serve the tertiary industry.

D. Opening to Outside World

To quicken the tempo in opening to the outside world is an important motive power in pushing China's economy forward at a high speed. We must consolidate and expand the current pattern of all-round opening up in all domains, at different levels and through many channels on the basis of our experience in opening up during the 1980s. Special economic zones must take the lead in establishing and improving a new system of socialist market economy, further develop the export-oriented economy and play their role well as a window and bridge in carrying out reform and opening to the outside world. We must consolidate and improve our existing economic and technological development zones and areas for the development of industries that use high and new technologies, and help them upgrade and raise their standards and efficiency. It is necessary to accelerate the opening and development of the new Pudong District in Shanghai, build Shanghai into an international economic, banking and trading center as soon as possible, and promote economic development in the Chang Jiang Delta and the entire basin. We must quicken the tempo in developing Guangdong, Fujian, Hainan and the areas along the rim of Bohai Bay, and strive to fulfill the modernization program ahead of schedule. We should open up more border and inland areas to the outside world, and take full advantage of the open cities along the Chang Jiang and the frontiers and of open provincial capitals in the interior, so that they will serve as a driving force for economic development in the surrounding areas.

To expand the use of foreign capital is an important source in increasing funds for construction. It is also an important means in rationalizing the structure of production. We must adopt more flexible methods of using foreign funds

and use them in more spheres of endeavor. We should continue to improve the investment environment and protect foreign businessmen in making investments and carrying out their businesses according to international norms. On the basis of China's industrial policies, we must channel the foreign capital into areas where it will help develop infrastructure, basic industries and agriculture and other spheres; and pay attention to expanding the scale and raising technical standards of foreign investments. We must strengthen the management of foreign-funded enterprises; and strive to do a good job in running existing Sino-Foreign joint ventures, cooperative and solely foreign-funded enterprises. China's markets are most attractive to foreign businessmen. We must follow the principle of mutual benefits and use our markets in exchange of technology.

In expanding foreign trade, we must further execute the strategy of diversification in foreign trade, and actively open up and develop new markets, while consolidating existing ones. We should work hard to expand trading with developing countries and neighboring nations on a large scale within the next two to three years.

We must continue to administer the strategy of "winning victory with quality," and pay full attention to promoting trade with science and technology and to integrating industry and trade. We should fundamentally improve the quality of export commodities, upgrade them and readjust their mix. We should adequately increase imports and make use of more foreign natural resources and advanced technology. We must adapt ourselves to the situation for China's re-entry into GATT, seize the opportunity, and make preparations to meet the challenge. Efforts must be made to further reform the foreign trade system, and establish a new system that conforms with international practice in carrying out trading. We should strengthen our work in combining trade with industry, technology, commerce and agriculture; follow the path of industrialization and internationalization; and that try to work together in groups. It is necessary to ease restrictions on buying and selling export commodities, grant qualified enterprises and research institutes the power to make decisions in foreign trade. We must accelerate the development of international tourism and of construction projects contracted abroad.

E. Science and Technology Issues

The key to fulfilling the strategy in promoting China's economic development lies in science and technology that constitute a primary productive force. Science and technology are vitally important to economic construction. For the next five years, we must combine research in applied technology with the development of science and technology; and focus on developing a highly efficient agriculture that provides greater and better yields, improving the industrial structure, reducing the consumption of energy and raw and semi-finished materials and making our export commodities more competitive. We should insure that our progress in science and technology will make more contributions to our economic growth. We must focus our

attention on developing a number of technological research projects that will greatly affect industry and agriculture. Construction of a group of key projects for industrial experimentation and national engineering technology research centers should be organized as soon as possible. In developing high and new technologies, we must closely follow the revolution in world science and technology and try in certain areas to reach or surpass the most advanced levels. We must organize people to tackle key scientific and technological projects; assimilate imported technology and improve upon it; do a good job in running development zones for high and new technologies; and quicken the tempo in promoting industrialization. We must give top priority to electronic data processing and other high and new technologies, increasing investment in them and spreading their use to the extent possible. We must continue to strengthen basic research in science. Basic research in science is the pioneer of scientific and technological progress and plays an important part in determining future social and economic development. For this, we must give it special assistance and keep a sufficient number of people working in this field. Emphasis should be placed on certain national research institutes and laboratories. We should continue reform of the management system for science and technology. Markets for technology should be opened, and qualified research institutes should be encouraged to join or associate themselves with enterprise groups or to transform themselves into enterprises for the development of science and technology. In reforming the management system for science and technology, all research institutes with the exception of those doing basic research work must assume responsibility for their own profits and losses and energetically open up the market for technology.

F. Educational Issues

It is of fundamental importance to the state to raise the educational level of the entire population. We must firmly put into practice the Outline for Reform and Development of Education in China and make education a strategic priority. We must uphold the principle that "education should serve socialist modernization and be combined with productive labor and that it must train people to succeed us who are well developed morally, intellectually and physically." Attention must be paid to elementary education. In the coming five years, we should make remarkable progress in instituting the nine-year compulsory education, eliminating illiteracy among most young and middle-aged people and satisfying the needs for qualified people in economic construction. We must develop different types of vocational and adult education as well as higher education, and insure that schools of different types and at different levels demonstrate their own unique features and coordinate with each other. We must gradually change the form that schools are run by the government, and set up a new educational system that will be primarily government-run but which will include schools of different types operated by different sectors of society. We must further reform the educational system, the content that is taught and the methods of teaching as

well as student enrollment and the employment of graduates. It is necessary to improve the training of teachers. Schools of different types and at different levels must adhere to the party's educational policy, strive to raise the quality of education and train more qualified people for socialist construction, who are well developed morally, intellectually and physically.

We must pay full attention and give full play to the role of intellectuals, and make further efforts to create a better environment for them to use all their skills and knowledge, and provide them with favorable conditions for them to carry out their work. We should adopt effective measures to help them move where they are most needed, and protect their intellectual property rights, and reward them handsomely for their intellectual contributions. We must encourage intellectuals studying abroad to return and participate in socialist construction. We appreciate it when our people studying abroad show concern and support for national construction, and we should implement the policy of allowing them to come and go freely and make things easy for them to enter and leave the country. We must vigorously publicize their achievements in implementing the reform and opening policy and developing the modernization program; and further create an atmosphere of respect for learning and for professionally trained people.

G. People's Living Standards

Helping people lead a comfortable life constitutes an important strategic goal in economic and social development during the 1990s. The governments at all levels must, as always, devote themselves to improving the people's living standards. For the next five years we shall try to increase the average per capita income that is used for living expenses by about 5 percent annually in real terms in urban areas and the per-capita net income in rural areas by 4 to 5 percent. We must insure that the per-capita living space of the people in urban areas will exceed eight square meters; that their living conditions are much improved; and that their cultural life will be richer together with the improvement of the material life.

To vigorously develop social production is the foundation in raising the people's living standards. To meet the needs for the people to lead a comfortable life instead of just having enough to eat and keep themselves warm, we must supply them with new consumer goods and insure that they have more home appliances and telephones. We should create conditions for people to own family cars. It is necessary to quicken the tempo in building residential quarters and improving housing quality and living conditions.

It is a fundamental requirement of the socialist system to realize common prosperity. We must uphold the principle of allowing some areas and individuals to grow rich first through hard and honest work, and we must continue to combat egalitarianism. At the same time, we should study the situation and adopt specific measures to promote common prosperity and avoid excessive disparities in income. In a few regions of the country people still lack adequate food and clothing right now. During the next five years it will be one of the important tasks for governments at all levels to solve this problem. First, the local people have to work hard. Meanwhile, the state must be determined to adopt effective measures to increase its investments in the areas in question, provide more relief in exchange for work, arrange for the exchange of skilled personnel among regions, and assist poor regions by introducing science and technology and by bringing them direct support from prosperous areas.

We should vigorously give full play to the fine tradition of waging arduous struggle. China is still a populous nation with comparatively limited natural resources. Our modernization program is in the pioneering stage, and numerous tasks remain to be undertaken. We must correctly handle the relation between accumulation and consumption and between construction and livelihood, and develop production while improving the people's living standards. We must carry on the spirit of building the country through industry and thrift, work hard for several generations to thoroughly overcome our economic backwardness in China.

II

To establish a socialist market economy in a planned way and step by step is of utmost importance to continue reform. The 14th National CPC Congress explicitly stated that the objective of China's economic structural reform is to establish a socialist market economy. This objective is written not only in the party constitution, but also in the revised Constitution. Therefore, it is necessary for the whole party and all the people in the country to achieve this objective. Based on the guideline laid down by the 14th National CPC Congress, the report of the Eighth National People's Congress on the work of the government worked out the operation plans on how we can positively and gradually forge ahead. It can be said that this is one of the special features of this year's report on the work of the government.

To establish and improve the socialist market economy is a process of long-term development. We must fulfill this task in several steps. The first step is to set up a frame for the new economic system in the 1990s, and basically complete this system between 2020 and 2030 in the next century. In the course of building this system, particularly at present, we must pay attention to tackling three problems. First, we must follow the general rules for the development of a modern market economy to gradually construct a frame for the socialist market economy according to international norms for market operation. From a long-term point of view, China's

markets must coordinate with the unified world markets in some basic aspects, although they should have their own characteristics. Particularly, when China re-enters GATT, this issue will become even more important and prominent. Second, we must set up a set of reasonable, normal and stringent regulations for macroeconomic control and regulation at all levels. We should not regard market economy as a liberal, anarchist economy. This kind of economy does not exist even in western society. The market economy in the western developed countries is comparatively stringent and normal in carrying out macroeconomic control and regulation. We may draw on the experience of these countries in many ways. Third, we must have a set of laws and statutes that fully meet the objective requirements of the socialist market economy so as to regulate the various types of markets. The government must govern the country according to law, while enterprises must manage their businesses according to law. The market must operate according to law, while the judicial departments must strictly enforce the law and supervise law enforcement. We need to work hard for a long time to solve all these problems.

To accelerate the formation of the market economy, we must make breakthroughs in the following six aspects: (1) We must quicken the tempo in changing management mechanisms, and truly invigorate the state-owned enterprises. The key to reforming state-owned enterprises is to separate the functions of the government from those of the enterprises, straighten out the relations between ownership and management of the enterprises, and turn them into legal entities and major competitive bodies in the market responsible for their own decisions about their operation and expansion and for their own profits and losses. (2) We must energetically develop all types of markets, and gradually establish a more effective market system. A more effective market system mainly contains the following two points. One is to establish all kinds of markets, while the other is to draft laws and statutes for the free circulation of basic means of production. (3) We must firmly carry out pricing reform; and set up and improve a pricing mechanism in which most of the prices are determined by market forces and by a control system with which the state regulates the prices as necessary. For the next five years, we should mainly concentrate our efforts in eliminating the "dual-price system" for capital goods and rectifying the excessively low prices of such basic industrial commodities such as transportation and energy. (4) We must further reform the wage system. (5) We must vigorously reform the social security systems and the urban housing system. (6) We must improve and strengthen macro-economic management, and gradually form a more effective system for macro-economic control and regulation. That means, we must do a good job in planning, further reform the financial and tax systems, continue reform of the banking system, and set up a system for the central bank to regulate the supply of currency and the total volume of credit.

Here we particularly wish to discuss the issue of invigorating state-owned enterprises.

The 14th National CPC Congress pointed out that China's economic structural reform is aimed at establishing a socialist market economy. This is another major development in Marxist economic theories and a correct and timely strategic policy decision in carrying out reform and opening to the outside world. They will create an incalculable impact on the development of China's productive forces. We must build a frame of the market economy in the 1990s, and basically establish the system of market economy and the operating mechanism between 2020 and 2030 in the next century. During this period of time, we should carry out a set of reform measures, but the focal point of our work is still on the change of management mechanisms of state-owned enterprises. We should invigorate them and help them become relatively independent economic entities and commodity producers and managers who make their own management decisions and assume responsibility for their own profits and losses and who are capable of transforming and developing themselves. The aforementioned work must be carried out with emphasis on enlivening enterprises. We should create whatever external and internal conditions needed in invigorating enterprises. Only by doing so, will it be possible for us to determine the priority and sequence in doing our work. Why is that? First, the central issue in establishing a socialist market economy is to determine the principal body of the market. Enterprises constitute the principal body of the market. Only by allowing them to freely enter and leave the market, can market economy be invigorated and established. Second, the proportion of China's state-owned economy is fairly large. It plays the main role in the national economy. Its lack of vitality will affect the establishment of a market economy. Third, following the development of all kinds of economic sectors, state-owned enterprises have found themselves in an even more unfavorable position in terms of economic competition. If state-owned enterprises are not invigorated, the structure of China's ownership system will undergo fundamental changes and the state-owned economy will be weakened. This will impair the market vitality. Therefore, the invigoration of large and medium-sized state-owned enterprises will affect not only the establishment of a socialist market economy, but also the fate of the socialist system.

In recent years the state has always attached great importance to invigorating large and medium-sized state-owned enterprises. It has adopted a series of important measures and attained notable results. Our experience in carrying out reform and opening to the outside world in the past 14 years shows that in establishing enterprise management mechanisms suited to a socialist market economy, we can choose one of the following five ways:

The first way out is to act in accordance with the "Enterprise Law" and the "Regulations on Transformation of Management Mechanisms of State-Owned Industrial Enterprises." These regulations were formulated in July 1992 on the basis of the spirit of the "Enterprise Law" and the new situation. This is a major event in China's economic reform, particularly enterprise reform. These regulations are of great significance in increasing the vitality of the enterprises, raising their economic efficiency and helping them become more market-oriented. They explicitly define the 14 privileges of the enterprises in personnel, labor, distribution and pricing. Meanwhile, they also define the relations between the government and the enterprises. In this way, we are able to fulfill the external and internal conditions for the invigoration of the enterprises. Right now, various localities are fulfilling these conditions. Our experience in the past few months shows that some regions and departments have actively adopted measures and made breakthroughs in this connection. The State Planning Commission has decided to improve its work of drawing up 1993 plans for production, commodity circulation, investments in fixed assets, foreign trade and wages. It has reduced the targets for agriculture, industry, supplies and commerce by 37 percent. The State Administration of Commodity Prices has also revised the list of prices for capital goods and charges for transportation under its control, and reduce the number of controlled items from 737 to 89. Meanwhile we also realize that these regulations were promulgated before the targets for the establishment of the socialist market economy were set. Some parts of the regulations are not so ideal yet. There is room for improvement, supplements and revisions.

The second way out is to entrust and empower enterprises to manage state-owned assets. The form was put forward in recent years. It has been adopted by many new companies, but it remains to be improved. This practice is quite popular abroad. In general, the state entrusts a board of directors to manage state-owned assets without much interference. The state organizes a board of directors in an enterprise and lets the members of the board make major policy decisions. The board of directors is responsible for the state-owned assets. This type of enterprise enjoys more freedom and the status as an independent legal entity. It manages its affairs, assumes the responsibility for its profits and losses, and pays tax to the state. The board of directors manages all the state-owned assets of the enterprise on behalf of the state, and insures that state assets are preserved and increased in value. The measure to entrust an enterprise to manage state-owned assets is simple and easy. The enterprise has ample power to manage its own affairs with its responsibilities, rights and benefits clearly defined and with its functions separated from those of the government. State-owned enterprises abroad usually adopt this measure whether they implement the shareholding system or not. Right now, views are somewhat divided on the question as to whom the added value of the state-owned assets should belong after they have been placed under the management of an enterprise on a

consignment basis. Some people believe that it should be turned over to the enterprise, while other contractors say that it belongs to them. It should be clearly pointed out that the added value should belong to the state, because the board of directors is organized by the boss—the state—to manage state-owned enterprise. Naturally all the returns belong to the state, not to the enterprise or individuals. As seen from the state of affairs in China, this practice has a great future.

The third way out is to carry out the shareholding system. The shareholding system is a form of organization for enterprise assets. A capitalist nation may use it. So is a socialist nation. It basically depends whether this system is implemented on the basis of the private ownership system or the public ownership system. China regards implementation of the shareholding system as an important policy decision. From our experience in the past few years in implementing the shareholding system, this system is indeed a form suited to the building of the market economy. This system should be developed in a planned way and step by step, while summarizing our experience in promoting the system in selected areas. A limited number of trades and enterprises of a monopoly nature that are doing businesses or turning out products that affect the national economy and people's livelihood may work under a system whereas the state has sole proprietorship or the majority of shares. Strongly competitive trades or enterprises may adopt the form with the state or a public legal entity as the main shareholder. We should encourage rural enterprises and other enterprises that are not state-owned and state-owned enterprises buy each other's shares and join their efforts in promoting developments.

The fourth way out is to develop joint ventures. We should combine foreign investment with the transformation of old enterprises. This will not only increase the amount of construction funds, but also absorb enterprise management mechanisms that will help invigorate enterprises. In recent years, the use of foreign capital is mainly aimed at building new enterprises. Only a small amount of foreign capital is used in renovating old enterprises. This situation merits our attention from now on. We must adopt more flexible forms in attracting foreign capital and use our policy as a guide to channel more foreign capital to the development of infrastructural facilities and basic industries. We should pay full attention to expanding the scale and raising the standard of projects with foreign investments to optimize China's industrial structure.

The fifth way out is to lease or sell small state-owned enterprises to collectives or individuals through public bidding. This kind of form is significantly different from the aforementioned three forms. Lease means that the ownership remains unchanged, that a rental be paid regularly and that the state no longer interferes with the management of the enterprise. Selling means the transfer of ownership. The management of the enterprise sold will be under the complete management of the buyer. No

matter what form is adopted, the procedure of liquidation and capital verification must be executed to verify the true value of the state assets in the enterprise and insure that no state assets are lost.

In studying socialist market economy, we must clarify three issues.

One, what is, after all, the relation between market economy and commodity economy? In essence, market economy is commodity economy, but this commodity is one regulated by price and competition mechanisms when it develops to a certain stage in which all social economic activities are mainly carried out through the market. Commodity economy is an economic formation, while market economy is an operating mechanism. Therefore, commodity economy and market economy are internally unified and closely linked. It is apparently inadequate if we try to set one against the other, believing that we may develop commodity economy, but not market economy or even saying that commodity economy is socialist, while market economy falls into the realm of the capitalist system. No matter what social system one adopts, it is necessary to allocate resources through market mechanisms as long as commodities are produced and exchanged in ordinary forms. This is market economy. On the basis of this prerequisite, we must vigorously develop the socialist market economy, since socialist economy is also commodity economy. To distinguish the excessively centralized system of planned economy that is traditionally socialist from the operating mechanism, it will be more distinctive and scientific to use the relatively corresponding concept of socialist market economy as the goal in building a new economic system and operating mechanism in China.

Second, the system of market economy that we seek to establish is combined with the basic system of socialism. It is the socialist market economy. It has something similar with the capitalist market economy, but there also exist some essential differences. Closely connected with commodity economy, the basic forms and means of market mechanisms are the same, no matter whether they are used under capitalist or socialist conditions. For example, all deals for the transfer of commodity ownership must be carried out on the basis of the principle of exchange at equal value. Meanwhile, we must also realize the difference between the capitalist economy and the socialist economy. In terms of ownership, we regard the public-owned economy as the dominant part, supplemented by individual, private, foreign-funded and other economic sectors. We also permit all economic sectors to co-exist and promote common prosperity. Both state-owned enterprises and those which are not state-owned may enter the markets. Through competition on an equal basis, state-owned enterprises may play their leading role well. In terms of commodity distribution, we regard the principle of distribution according to work as the dominant part, supplemented by other forms of distribution; and take account of both efficiency and fairness. We also make full use of all kinds of regulatory means including the market forces. We not only encourage the advanced

to forge ahead, and seek to raise efficiency and rationally widen the difference in income, but also ameliorate uneven distribution in society, guard against polarization and gradually achieve common prosperity. In terms of macroeconomic control, our socialist nation is able to integrate people's immediate interests with their long-term interests and the interests of some with interests of all; and exploits the advantages of both planning and market forces. The state plan is an important means of macroeconomic control, but a state plan is not equal to a mandatory plan. We must renew our concept of planning and improve our methods in carrying out planning. We should do a good job in forecasting economic developments, in exercising macro-control over the work of planning for major structural changes and in distributing the productive forces. We should work out rational strategic targets for economic and social development, concentrate our financial and material resources in developing major construction projects, and carry out our work in economic construction even better and more promptly. In addition, we should focus our attention on development of spiritual civilization and of professional ethics in doing business.

Third, to develop diverse sectors of the economy with the system of public ownership playing a dominant role is an essential condition in establishing the socialist market economy. For the past 40 some years since the founding of new China, significant changes have taken place frequently in the structure of China's ownership systems. These changes represented successes and failures. From these changes, we have drawn the conclusion that the adjustment of an ownership system must be based on the requirements in the development of the productive forces. Only then is it possible to promote the development of the national economy. We cannot adjust any ownership system without paying attention to objective conditions. The adjustment of the ownership structure after the Third Plenary Session of the 11th CPC Central Committee has promoted the development of the productive forces and scored tremendous successes. To let the system of public ownership play the dominant part, supplemented by individual, private and foreign-funded economic sectors and allow diverse sectors of the economy to develop side by side on a long-term basis is of fundamental importance in building the socialist economy with Chinese characteristics and an important component in implementing reform and opening up.

1. We should continue reform with our emphasis on the invigoration of large and medium-sized state-owned enterprises, raise the efficiency of the state-owned economy and increase its strength. It is necessary to firmly change the operating mechanism of the enterprises, and help state-owned enterprises improve their competitiveness. To suit the new system of the socialist market economy and change the operating mechanism of the state-owned enterprises, we generally have four ways: First, we act in accordance with the "Enterprise Law" and the "Regulations on Transformation of Management Mechanisms of State-Owned Industrial Enterprises." These "Regulations" promulgated in July 1992

on the basis of the guideline laid down by the "Enterprise Law" and the new situation has clearly defined the 14 rights on personnel management, use of labor, international distribution, institutional set-ups and foreign trade including exports and imports. Meanwhile, they have also clarified the relation between the government and the enterprises. In such a way, they provide enterprises the basic internal and external conditions to enliven themselves. We must earnestly implement these regulations. Naturally, there is room for improvement in these regulations. Second, we should entrust or empower the enterprises to manage state-owned assets. The state entrusts a board of directors with the state-owned assets, while the latter is fully responsible for the assets. Through the appointment of the chairman of the board of directors and the manager, the state exercises effective supervision over the state-owned assets. Third, we should implement the shareholding system. China's experience in the past few years shows that the shareholding system is an effective form for state-owned enterprises to change their management mechanisms. At present, we should select more localities to carry out our experiments in this connection and gradually popularize such system while summing up our experience. Fourth, we should lease and sell small state-owned enterprises to collectives and individuals through public bidding.

2. We should further consolidate and develop the urban and rural collective economy, and bring into full play the role of collective economy in expanding employment, increasing revenues, helping poor and backward areas develop production, and strengthening basic-level political power. It is necessary to rationally define the ownership of collective enterprises, and adopt effective measures to guard against equalitarianism and the indiscriminate transfer of their assets. We should separate the functions of the government from those of enterprises, sever the administrative ties and affiliation between collective enterprises and the authorities, and let collective enterprises truly enter the market.

3. We should define the scope of business of various economic sectors other than the public sector. On the basis of our current understanding, it can be defined as follows. Naturally this kind of definition will be changed and adjusted in the course of future developments. The scope of operations within which various economic sectors other than the public sector are banned to carry out their economic activities means a sphere in which except for the public sector, no other economic sectors are allowed to carry out production or business activities in any form under any circumstance. Mainly it represents those trades and products that affect the economic lifeline of the state, national security and those which can be used to control and adjust the development of other economic sectors. A restricted scope of operation for economic sectors other than the public sector means trades and products that the collective economic sector may also engage in production or business operation under certain conditions and in certain forms together with the public sector. These trades and products are

important to the national economy and people's livelihood, but there is no need for the state to monopolize the market. The scope of operations within which various economic sectors other than the public sector are encouraged to carry out their economic activities means trades and products that these economic sectors may independently engage in production or business operation and those trades and products that the state needs to develop. There is no need for the public-owned economic sector to control these trades or products, or the public sector has already occupied a dominant position in these trades or in the manufacture of these products.

4. We should establish the legal status of private properties, protect legitimate business, rights and interests of individual industrial and commercial establishments and private enterprises, guide them to steadily develop within the scope of operations specified by the state, and bring into full play their role in supplementing the national economy and people's livelihood. We must further relax restrictions in implementing our policy. Except those businesses and products specifically restricted by the state policy, we must give free reins to individual and private economic sectors to do business or carry out production. We should protect and encourage individual and private economic sectors to do legitimate businesses, and stop collecting arbitrary fees and imposing penalties on them at will.

5. We must understand the nature and the effect in combining all kinds of ownership systems; encourage enterprises under different ownership systems to compete with each other on an equal basis and join their operations on their own; and bring about a healthy development of the economy composed of mixed economic sectors. Enterprises with different ownership systems are new economic organizations composed of various economic sectors. Following the development of the socialist market economy, these enterprises will definitely make rapid progress. We must treat them in real earnest.

To establish a new system of socialist market economy will be a long process, because it is a difficult and complex feat of social systems engineering. The whole party must work hard and meticulously to develop such system. We should make sustained efforts, while keeping to the correct orientation and proceeding in the light of actual conditions. We must energetically forge ahead while acting prudently. The extent to which planning is combined with market regulation and the form the combination takes may vary at different times, in different realms and in different places. We must not follow the same pattern. We should be bold in exploring new ways, dare to experiment, constantly review our experience, popularize what is good and improve what is inadequate so as to expedite the replacement of the old structure with the new. We have every reason to believe that a market economy established under the socialist system can and should operate better than one under the capitalist system.

Article on Development of Pillar Industries

HK1309134593 Beijing JINGJI GUANLI in Chinese
No 5, 5 May 93 pp 6-9

[Article by Zheng Xinli (6774 2450 4539): "The Cultivation and Development of China's Pillar Industries in the 1990s"]

[Text] I. The New Stage of Economic Growth and Its Major Tasks

After more than 10 years of reform and opening up, gigantic changes have taken place in China's economic development level and economic pattern, and her economic growth has entered a new stage. The major signs of this new stage are: First, agricultural development can basically meet the needs of the people for food and clothing; second, industrial consumer goods have changed from shortage to low-level surplus; third, the output of energy and raw materials ranks in the forefront of the world.

The course of industrialization of many countries has shown that after the development of agriculture and labor-intensive industries has met the basic needs of the people for food and clothing, that is, when the GNP has reached \$300 to \$400 per capita, a new leap will appear in economic growth. Aiming at meeting a new and higher level of consumption demand, this new leap concentrates on developing capital-intensive and technology-intensive industries, thereby ushering in a stage of speedy industrialization for economic development. Analyzed from the situation in various aspects, China's economy has entered a new stage of speedy industrialization.

Judging from the stage of development of consumption demand, the target of realizing a comparatively well-off level before the end of this century and solving the problems of the people in housing and transportation is now on the agenda. According to sample investigations and public opinion polls, the greatest desire of township and town residents is to improve housing conditions, and the second greatest is that they hope to have telephone services and motor cars as tools of information transmission and communications. Without development in these new spheres of consumption, it is impossible to realize the leap in GNP from \$300 to \$1,000 per capita.

Judging from the present situation of industrial development, China's present total output of coal, cement, and agricultural products ranks first in the world, electric power production ranks fourth in the world, and steel output ranks third. That is to say, the labor and power that China's industrial and agricultural production can provide for the processing industries already rank in the forefront of the world. But the value of industrial increase ranks 11th in the world, lagging behind that of Brazil. The reason lies in: Low depth of processing of products, low technological content, and low level of industrial structure and product mix. Therefore we can

only turn out products equivalent to one-sixth to one-fourth the value of those of developed countries with the same amount of energy and raw material consumption. During the new growth period, China's industry must shift from the extensive type to the intensive type; shift from the key development of primary energy and raw materials such as coal and iron and steel to the direction of developing high added value products that save energy and raw material; and shift from general-processing industries to deep-processing industries with high technological content.

II. New Points of Economic Growth in the 1990s

In the 1990s, it is fully possible for China's economic development to maintain the growth rate of the 1980s, and for her GNP to reach an annual growth rate of 8 to 9 percent. Apart from the above conditions, China has an ample supply of technological and labor resources. In funds supply, as China's savings rate is quite high, plus the use of foreign investments, she can also maintain a high rate of investment. As a later-developing country, so long as she carries out a correct development strategy, China can greatly shorten the time for industrialization. The experience of Japan, and those of the "four small dragons" in particular, have fully indicated this point. Moreover, after more than 10 years of reform and opening up, an economic system and operational mechanism adaptable to economic development are being established in China, and her experiences in developing the economy are richer. Therefore, in the 1990s China can take faster and steadier steps in developing the economy than in the 1980s.

In the 1980s, China's economic development mainly relied on the speedy growth of agriculture, the light and textile industries, and the building materials industry. In the 1990s, the economy has entered a new stage, and it is necessary to look for new points of growth. As leading industries that promote the development of the national economy, these new points of growth should have the following characteristics: 1) The industries give great impetus to production and consumption, are highly interrelated, and have bright market prospects; 2) the products have high added value and technological content, and are powerful in terms of currency withdrawal; 3) they capable of attracting funds, and if resource conditions allow, it is possible to start the projects in the near future; 4) good economic performance, favorable to increasing financial revenue.

In the industrial sphere, to cultivate and build up new leading industries, it is necessary to vigorously develop, according to the requirement of the 14th CPC National Congress, the mechanical and electronics industries, the petrochemical industry, the automobile manufacturing industry, and the building industry, which conform to the above characteristics, and make them become the pillar industries of the national economy.

1. China is not too late in starting up her electronics industry, and has put in quite a large amount of human

and financial resources, but progress is slow. Compared with the situation abroad, China is lagging behind. The net output of the electronics industry of all China in 1990 amounted to \$14.5 billion, that of the United States \$226.3 billion, that of Japan \$158.7 billion, while Korea also reached \$26 billion. This industry alone made China's GNP \$210 billion less than that of the United States in one year, and \$140 billion less than that of Japan, 2.2 times and 1.5 times the value of China's industrial increase respectively. This can in no way be made up by the development of the light and textile industries and other general-processing industries.

More importantly, backwardness in the electronics industry has affected the standard of mechanical products as a whole, and obstructed the development of information, thereby affecting the technological level of industry as a whole and various aspects of social life. It is the number one option in the order of industrial development to concentrate efforts on the development of the electronics industry and make it become a pillar industry in the 1990s.

In the mechanical industry, we should take communications and telecommunications equipment, energy equipment, chemical industrial equipment, and other large complete sets of equipment as the key to development, and develop mechanical and electronic products according to the requirement for the integration of the mechanical and electronics industries. Ship-building is a technology-intensive and labor-intensive industry, and China has favorable conditions for the development of the ship-building industry. To speed up the development of the ship-building industry, not only can China vigorously develop the shipping business, it can also make it a strategic industry for export.

2. The petrochemical industry is an important sector of modern industry, and developed countries in general have given priority to its development as a pillar industry. During the four decades from 1950 to 1990, the steel output of the whole world increased threefold, and the output of ethylene and plastics increased by 60 times, because the cost of plastics that could replace steel was only one half that of steel. The proportion of steel replaced by plastics abroad has reached 50 percent, but less than 10 percent in China. China's ethylene output not only lags far behind that of the United States, Japan, and other developed countries, but also lags behind that of Korea. Backwardness in the ethylene industry has rapidly increased the demand for steel. The speedy development of the iron and steel industry has brought great pressure to bear on energy and transportation, and macroeconomically it is not worthwhile. In petrochemical products, the small proportion of refined petrochemical products is also an important expression of backwardness in China's petrochemical industry. In developing the petrochemical industry, we must put the refined chemical industry in an important position, which is an important way to improve the economic performance of the petrochemical industry.

3. The automobile industry is a backward link that stands out sharply in China's industrial structure, and China cannot but import automobiles with her valuable foreign exchange. In the current stock of automobiles, imported automobiles account for about one-third. In 1992 China produced 1 million motor vehicles, but she spent \$2.5 billion in importing parts and spares. The money spent on importing each automobile is equivalent to the investment required for building an automobile factory in China to create the production capacity for one automobile. Since its founding, the PRC has spent over \$20 billion in importing automobiles. China's present output of motor vehicles is equivalent to one-eighteenth that of Japan. Korea started developing the automobile industry in the 1960s, 10 years later than China, but her present output of motor vehicles is more than twice that of China, automobiles have become Korea's fist products for export, and 70 percent of the families in Korea own cars.

The automobile is a typical product of high added value; the automobile civilization is an important sign of modern industrial civilization. China's present level of development of the iron and steel industry, the chemical industry, the mechanical industry, and the petrochemical industry has provided the prerequisites for great development of the automobile industry. Only such expensive commodities as automobiles can be of adequate attraction to exchange for the over 1,000 billion yuan deposits in people's hands. Experience abroad has proved that when the GNP reaches \$1,000 per capita, families start acquiring cars. The GNP per capita has reached over \$1,000 in China's Zhu Jiang Delta, areas in southern Jiangsu Province, and in the Hangzhou, Jiaxing, and Huzhou areas and some suburban areas. Families purchasing cars plays a decisive role in stabilizing market prices. Obviously, the time is ripe for great development of China's automobile industry.

4. The building industry is a labor-intensive industry. In China, the building industry should be one of the powerful pillar industries. The building industry abroad generally accounts for over 20 percent of GNP, and China's building industry now accounts for only 5 percent. The crucial factor that affects the development of the building industry is that living accommodation in cities and towns is part of welfare benefits, and not a commodity. The production, circulation, distribution, and consumption of living accommodation cannot enter a benign cycle. We should promote the speedy development of the building industry through truly carrying out reform turning housing into a commodity according to the requirements of the law of value. Improvement in people's living conditions is an important aspect of realizing a comparatively well-off level before the end of this century. The housing system reform should be quickened, and wage and distribution system reform should be carried out synchronously. Change welfare subsidies in housing into wage income, and regulate supply and demand by the price of living accommodation, so as to alleviate the contradiction of unfair distribution in living accommodation and change a part of

people's income into investment in living accommodation construction to support the development of the business of housing construction. The building industry includes the construction of social infrastructure, which should also take the road of the public raising of funds and compensation for value. Over 1,000 bridges were built in the 1980s in the Zhu Jiang Delta, which ended the history of the automobile ferry. They rely on the method of "maintenance of bridges by bridges." This experience merits popularizing.

The four pillar industries are leading industries in the new stage of economic growth, and are new points of economic growth. To develop these four major industries there is market demand, and the industries are highly interrelated. They will inevitably promote the speedy development of China's industry and the national economy as a whole in the 1990s.

III. Development of the Pillar Industries Requires Powerful Industrial Organizations and Policies

Apart from new-type materials and other trades in the electronics and petrochemical industries, the four major pillar industries generally belong to traditional industries which are technologically mature. To give play to the superiority of later developments, we should formulate clear-cut industrial policies to speed up the cultivation and development of the pillar industries by macroeconomic regulation and control and policy guidance, and use administrative means when necessary. Of course, the premise for government macroeconomic regulation and control and administrative and organizational means is that it should not hinder the function of the market mechanism. It is necessary to make full use of the basic function of the market mechanism in allocation of resources, and through market competition, to concentrate various kinds of productive factors on enterprises with advanced technology, a high level of management, fine product quality, and low costs. Heighten the market occupancy rate of advanced enterprises by giving them support, so that there will be no room for the survival of backward enterprises and products. This is the only effective method to overcome the phenomena in construction projects at present of being small-sized, scattered, and technologically backward.

It is necessary to organize the construction of the pillar industries according to the principle of economies of scale. The four pillar industries are typical industries with marked performance in economies of scale. Take the automobile industry for example. Only when annual output reaches 300,000 cars can specialization and socialization be realized in the production of parts and spares, can production costs be greatly reduced, and can products have competitive power in the international market. The economic scale of ethylene should be an annual output of over 300,000 tons, and the largest scale abroad has exceeded 700,000 tons. After the resumption of China's signatory status in GATT, and under the circumstances that foreign products are allowed to enter China, those construction projects that cannot reach the

requirement of economies of scale are destined to have no future. Therefore, the principle of economies of scale should be an important principle in developing pillar industries.

To reorganize existing enterprises according to the requirement of specialization and socialization is an important measure for developing pillar industries. These four industries in China have quite large production capacities and solid foundations, and their geographical distribution is basically rational. The problem lies in being excessively scattered, and various enterprises are keen on being "large and complete," or "small and complete"; while products and equipment are aging, and enterprises are overstaffed. We should focus on new products that have bright market prospects, get interrelated enterprises organized, break free of regional and departmental restrictions, and develop horizontal integration. In the electronics, mechanical, and automobile industries especially, there are many factories at present, but very few are mass-production, specialized, and high-level enterprises. We should get the same kinds of enterprises organized through coordination by various levels of government according to economic laws and the principle of sharing benefits and risks. To overcome the restrictions brought about by local government responsibility for all expenditure, we should reform the taxation system and change the present method of collecting circulation tax based on place of origin to mainly collecting income tax from operators and investors in the places where their enterprises are located, so as to enable local governments to support, from their own interests, horizontal investment and integration between enterprises.

To develop important new technology and new products, we should organize forces in a united way in the whole industry to tackle key problems in scientific research. For example, to master the manufacturing technology of key components and devices of integrated circuits, we should concentrate human, material, and financial resources to effect a breakthrough, and share the results of research together. It is extremely costly to develop this kind of key technology, and no single enterprise or research institution is competent for the job. In a socialist country like China, forces for such key tasks should be better organized. To quicken the speed of technological progress, we should actively strive to import technology. However, foreign countries generally are unwilling to sell truly advanced technology. For the development of important technology of the electronics industry, we should rely on our own efforts. We may also invite foreign specialists, especially Chinese specialists of foreign nationality, to do research and development together with us.

Projects construction should follow the requirement of shortening as much as possible the construction period, and reach a particular investment strength. Either doing nothing, or doing it at full speed. Going into operation one day earlier means recovering funds one day earlier. If the construction period is lengthened, the burden of

loan interest becomes heavier. It is an important experience that full preparations are made in various aspects, and that once construction starts, every second counts.

IV. Build Up a Highly Efficient and Flexible Mechanism for the Investment and Merging of Funds

The pillar industries are mostly funds-intensive industries. To develop the pillar industries, it is necessary to vitalize the funds market and build up an improved mechanism for the investment and merging of funds, so that the proprietors of enterprises or construction projects can speedily acquire the funds required from the market.

The shareholding system is an important form of raising funds. We should select from among the major construction projects already laid down by the state in the Eighth Five-Year Plan and the 10-Year Program some projects that are expected to have a higher rate of investment recovery, and the central authorities, the local authorities, and enterprises should make joint investments and share profits and employment quotas according to the amounts invested. The organizations carrying out the building can be determined by the method of public bidding. It is necessary to expand the stock market experiments, and change the situation of demand far exceeding supply in China's present stock market. However, according to China's state conditions, in the foreseeable future, enterprise funds should primarily come from the indirect merging of funds, and the proportion of direct merging of funds should be maintained at a low level. Even in a country where the stock market is developed, such as Japan, the proportion of direct merging of funds makes up about 30 percent of the total source of funds of enterprises, and the remaining 70 percent comes mainly from loans granted by banks and other monetary organizations. Based on long-term observation, enterprises that have a higher proportion of indirect merging of funds have stronger competitive power. According to China's practical situation, it is necessary at present to appropriately develop enterprise merging of funds by shares to build up social supervision over enterprises, and to open up new channels for the merging of funds. However, in the long run, we should look upon indirect merging of funds from banks as the main channel for enterprises to obtain funds.

To give play to the basic function of the market in the allocation of resources, and to guide social funds to the pillar industries and enterprises with good economic performance, enterprises should be allowed to raise funds by issuing bonds, including raising funds by the method of "selling green seedlings." Take China's automobile industry for instance. Although it has been decided that emphasis should be placed on "three large and three small" and "two mini" for the development of China's automobile industry, there generally exists the problem of insufficient strength of investment. Enterprises should be allowed to issue bonds, or to issue automobile bonds that give priority to the supply of automobiles within a number of years on preferential

terms, which definitely would have a strong attraction for social funds. It is necessary to open up multiple channels for the merging of funds for pillar industrial enterprises by building up a flexible mechanism for the merging of funds.

It is necessary to build up the state's investment banks of a policy nature to provide appropriate discounts and subsidies through financial funds, with which to support among the pillar industries some enterprises and construction projects that have long investment recovery periods, low rates of investment recovery, but good social performance. Other general construction projects mainly use loans from commercial banks.

Using large amounts of foreign investments is an important source of funds in developing pillar industries. The automobile industry, the building industry, and the general petrochemical industry in particular have already become sunset industries in certain developed countries. It is necessary to attract them to shift to China, or for China to purchase their second-hand equipment. We should actively strive to get credit loans from buyers to speedily develop China's pillar industries by using resources and production capacity overseas.

INDUSTRY

Baoshan Iron, Steel Complex Sets Production Record

OW1509072593 Beijing XINHUA in English
0655 GMT 15 Sep 93

[Text] Shanghai, September 15 (XINHUA)—As of yesterday, the Shanghai Baoshan Iron and Steel Complex had produced a sum of 33.24 million tons of steel and 31.28 million tons of iron.

It has delivered 12.17 billion yuan in taxes and profits to the state, becoming China's leading iron and steel production base with modern facilities and rapid development.

Construction began in 1978. The first construction phase of the complex went into operation on September 15, 1985. It reached its designed production capacity in the following year and exceeded it in 1987.

Since 1991 when the second construction stage went into production, the complex has met its designed production capacity.

A survey report shows that the production output of iron, steel and steel products in the first eight months of this year had set a record.

A complex official said that Baoshan has paid close attention to scientific progress alongside its production. It has developed 120 new types of steel.

At present, the complex is raising funds for construction of its third phase project.

FOREIGN TRADE, INVESTMENT

Yancheng Investigates Capital Management in FIEs

93CE0710A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 6, 30 Jun 93 pp 59-61

[Article by Dai Yuming and Liu Kaixian of Yancheng Sub-bureau of the State Administration of Exchange Control: "Causes and Counter-Measures for Low Rate of Paid-Up Capital in Foreign-Funded Enterprises"]

[Text] In recent years, the work of attracting foreign investment has developed rapidly, and foreign-invested enterprises (FIEs) have mushroomed. Nevertheless, a relevant department shows that in the work of developing FIEs right now, there universally exists the problem that the establishment of many FIEs has been approved, but not many of them actually go into operation and start production. The main reason is the low rate of paid-up capital from both sides of joint ventures. By investigating the 171 enterprises in Yancheng, this article seeks to probe into the existing problem in capital management in various foreign-funded enterprises.

I. Basic Situation in Capital Contributions

As of the end of September last year, Yancheng City had approved a total of 196 Chinese-foreign joint ventures and cooperative and exclusively foreign-owned enterprises, of which 114 were approved in 1992. However, by the end of 1992, only 61 of them went into operation and started production. The total investment of the 171 enterprises investigated is \$190.64 million. Their total registered capital is \$132.96 million, of which the Chinese partners invest \$81.02 million or 60.9 percent and the foreign partners invest \$51.94 million or 39.1 percent of the registered capital. As seen from the form of investment, the Chinese partners provide \$10.58 million worth of evaluated land and factory buildings, \$18.87 million worth of evaluated equipment, spot foreign exchange \$30.16 million and 19.74 million yuan, accounting for 13 percent, 23 percent, 37 percent and 24 percent of their capital. The foreign partners provide \$12.06 million worth of evaluated equipment and \$34.49 million in spot foreign exchange, making up 23 percent and 66 percent of their registered capital. As seen from the situation of capital contributions, a total of \$65.156 million have been subscribed, accounting for only 49 percent of the total amount of capital, of which Chinese partners contributed \$48.883 million, and foreign partners \$16.273 million. The amount of capital due but not subscribed totaled \$67.804 million, of which the Chinese partners need to subscribe 47.4 percent, while the foreign partners 52.6 percent. There are only 44 enterprises in which both the Chinese and the foreign partners have completed all their contributions, accounting for 25.7 percent of all the enterprises investigated. There are 15 enterprises in which both the Chinese and foreign partners have failed to make any contribution.

II. Analysis of Existing Problem and Their Cause

By means of investigation, we have discovered that the rate of paid-up capital in FIEs in Yancheng City is low. Chinese partners' rate of contribution is higher—60.3 percent and that of the foreign partners is only 31.3 percent, of which the rate of paid-up capital in foreign exchange and renminbi cash is the worst. According to the enterprises that we investigated, the main reasons are as follows:

1. The enterprises' own funds are awfully insufficient. They mainly rely on bank loans to provide capital. On the one hand, the source of registered capital of a joint venture should be the venture's own funds as stipulated in the regulation. However, most of the Chinese enterprises which incorporate themselves into joint ventures are usually small-scale. They originally operate with low economic efficiency. Their profits are relatively low and their own funds are limited. Therefore, they have to rely on bank loans to subscribe and pay their capital in either foreign exchange or renminbi when they seek to incorporate themselves into joint ventures. On the other hand, China's economy has rapidly developed in recent years. Particularly foreign-funded enterprises have grown swiftly. To maintain stability and bring about a coordinated development in its national economy, the state has to impose credit restrictions. With the money and credit funds in short supply, banks are usually unable to supply the joint ventures with the amount of loans they need and approve the credit period they desire. In addition, capital loans are usually longer in period and are thus more risky. In extending capital loans, banks are often more prudent. They will turn down loan applications if the enterprise applies a loan without a certain percentage of its own funds. Therefore, enterprises are unable to seize the initiative in obtaining the capital they need and to insure that contributions will be made on time for the capital. Another reason is that most of the joint ventures need to import equipment. The Chinese partners must provide a large amount of funds in foreign exchange. Enterprises usually have no foreign exchange funds retained for their own uses. In addition, the state now clearly stipulates that a joint venture is not allowed to use foreign exchange purchased on the exchange swap market as a part of its capital. This also objectively limits the Chinese partners in raising its foreign exchange capital and affects their ability to make payments on time. Among the enterprises investigated, the amount of capital of the Chinese partners in the form of their own funds is less than 10 million yuan, making up about 10 percent of the total capital. However, its capital raised by means of bank loans totalled 96 million yuan and \$25 million, accounting for 90 percent of Chinese partners' capital. Right now the amount of paid-up capital have reached 30 million yuan and \$10 million, making up 31 percent and 40 percent of the total amount of capital due for payment.

2. The authorities at the higher level pay attention to quantity, but the administrative measures fail to keep pace with the situation. Most of the enterprises point out that

the current task of developing Chinese-foreign ventures, cooperative and exclusively foreign-owned enterprises is arduous. To fulfill the local policy and the targets set by the various authorities concerned, enterprises have little choice but to work on contracts and regulations, and get business licenses and permits first, and then gradually obtain the capital. This has thus extended the time limit in contributing investment. Most of the enterprises have more than six months in contributing investment. Due to difficulties in fund raising, many enterprises take a long time to start production after receiving their business licenses. For example, the total investment of the Changdong Silk Cloth Products Co. Ltd. is 24 million yuan, of which the Chinese partner commits 9.74 million yuan. This enterprise got its business license in October 1991, but not a single cent of the renminbi portion of the capital has been paid. Some enterprises provided their land and factory buildings as investments in many ventures, while contributing nothing to their total capital. In the past, there was a regulation that in applying for the approval of a joint venture, it was necessary to verify if funds are available before a business license was issued. However, in recent years, due to our one-sided stress on speed and quantity and the need to simply the procedure, it was later stipulated that a joint venture may be issued a business license without having to have its capital verified. Objectively, this makes it more difficult to check if contributions are made on schedule for the investment. This is a major reason of the low rate of capital contribution.

3. When a foreign partner provides equipment as its investment, it is often less sincere in incorporating itself into a joint venture. According to statistics, foreign businessmen use their equipment as investment, totaling \$12.055 million, accounting for 23.2 percent of their registered capital. Most of the foreign businessmen do not directly send money to the account of the joint ventures. They usually pay money to buy equipment outside China. In addition, it takes longer to select and ship equipment. Therefore capital contributions in this form are usually not made on time. In violation of agreements for joint ventures, some foreign businessmen contribute obsolete equipment that does not pass China's commodity inspection, thus failing to subscribe and pay the capital on schedule. For example, a certain suede company limited obtained its business license in November 1990. The foreign businessman in this joint venture offered second hand equipment as his investment, but such equipment failed to pass commodity inspection. He was asked to return the equipment and pay compensation for the losses. As a result, the foreign investment of this joint venture has not been subscribed even now. Some of the foreign businessmen also wilfully stall for time to subscribe their investment. For example, the Xindong Cotton Textile Company Limited went into operation in 1991. Its foreign partner still has \$20,000 not paid as of now. The amount is 10 months overdue.

4. When the market situation changes, both sides of the joint venture slow down their investments. Without careful planning, some of the joint ventures have gone

into operation in a hurry. As a result, their programs are not so ideal, and their products are not readily marketable. Their economic efficiency is low, and investors are gradually losing confidence. For example, the Jiangsu Hongdaluo Chemicals Company Limited is a chemical enterprise producing trichloro-tetrafluorated aniline. It went into operation in July 1992. Originally it plans to produce 15 tons of trichloro-tetrafluorated aniline a month. However, this product does not sell well now, and its price has dropped. The enterprise can hardly make ends meet. Therefore, both sides of the joint venture slow down their investments and fail to make their capital contributions on time. Some of foreign businessmen are unwilling to continuously contribute to their investment after they realize that the enterprises are not making any profit because of low economic efficiency. For example, the Xincao Eel Industrial Company Limited was set up in December 1990 with a total investment of 15 million yuan. The company has suffered losses for several years running because eels do not sell well. This has made the foreign partner suspend his investment. As of the end of September 1992, the Chinese partner had already invested 2.6 million yuan, but the foreign partner only contributed 50,000 yuan worth eel-packing bags, accounting for 10 percent of the amount of investment committed. Also, within the time limit for capital contribution, some of foreign partners of a number of enterprises believe that the investigations and market researches conducted by their Chinese counterparts are inaccurate and that the economic efficiency of these enterprises is too low. They demand to revise contracts and seek to reduce the scale of their investment or change ways for making capital contributions. For example, the Fengjia Knitwear Company Limited originally plans to import 16 circular knit machines. Later its foreign partner only agreed to import six machines because the price of knitwear is too low for making a profit on the export market, thus reducing the scale of the original investment by more than half. The joint venture contract of the Haida Redwood Craft Company Limited in Yancheng stipulates that in addition to the portion of investment in the form of raw material, the foreign partner must also contribute \$50,000 spot foreign exchange as a part of investment. Later, the foreign partner regarded the payment in the form of spot foreign exchange too risky, and demanded that he be allowed to substitute the foreign exchange payment with redwood from Thailand. Yet, as of now, no Thai redwood has arrived.

5. Both sides of the joint venture adopt a wait-and-see attitude, delaying their capital contributions. In some enterprises, both sides do not trust each other. They are suspicious and jealous of each. Neither side is willing to make a capital contribution first. As a result, contributions are always delayed. For example, the registered capital of the Meiwan Toys and Craft Company Limited in Yancheng, a Sino-U.S. joint venture, is \$200,000 of which both sides promise to contribute half of the investment. Right now, the Chinese side has already

raised \$87,300, but it has suspended its contribution, because the American side has not contributed a cent.

III. Several Counter-Measures in Improving Capital Management

To make better use of foreign capital and run FIEs well and in light of the existing problems in capital management in FIEs, we believe that efforts must be made to adopt the following counter-measures:

1. It is necessary to screen and reorganize the enterprises. The state should insure that the departments concerned fully understand the situation in subscribing and paying the capital in FIEs, and exercise their power of supervision and management well. It is essential to establish a clean-up team and organize the various departments in planning, economic affairs and trade, finance, banking, foreign exchange control, industry and commerce, taxation, commodity inspection and political and legal affairs to examine how capital contributions are made in FIEs that have already been established. These departments should solve problems as soon as they crop up. In dealing with enterprises with good programs but not enough funds, the relevant department must be advised to help them make up the insufficient fund within a time limit. In dealing with those with poor planning and in dire need of funds and those which the foreign businessmen are no longer willing to work with, it is necessary to help them carry out liquidation and nullify their business licenses. In dealing with enterprises where programs are feasible but foreign investors' reputation is poor, efforts can be made to help them find other partners so as to start production and make profits at an earlier date.
2. Financial departments must give priority to helping joint ventures obtain capital loans. Banks should set up a type of special capital loan for FIEs and actively provide capital. They should help those joint ventures with proven feasible programs that conform to the industrial policy to solve their problem in making capital contributions with renminbi and foreign exchange. They must rescind the regulation that capital loans are to be approved on the basis of 50 percent of the registered capital of the Chinese partner. Enterprises must be allowed to buy foreign exchange at the foreign exchange market as their contributions to their investments. On the policy of equalizing foreign exchange, the foreign exchange control department must adopt a policy in favor of the supply of foreign exchange to be used as capital and insure that the reasonable requirements of the Sino-foreign joint ventures and cooperative and exclusively foreign-owned enterprises for capital are met.
3. It is necessary to pay attention to efficiency and make steady progress. Relative departments and enterprises must foster the guiding ideology of attaching importance to both quantity and efficiency. They must not emphasize quantity only, but pay attention to quality of the joint ventures. It is essential to vigorously support

existing FIEs, manage them well and help them create a fine environment for production so that they may start production, yield good economic results, and attract more foreign businessmen to make investments in China. The saying that "the peach and the plum do not speak, yet a path is worn beneath them" contains profound truth. From now on, the relevant department in charge of examining and approving joint ventures must conduct careful checks and feasibility tests meticulously and in depth. It should approve one when one's conditions are ripe. It should turn down all those applicants who fail to meet the requirements.

4. It is imperative to work out policy measures and strengthen the work of guidance and management. We must restore the system of verifying the capital first before issuing a business license. We will not issue any business license to any enterprise which fails to show evidence of its capital or to make capital contributions on time. Meantime, it is necessary to train more accountants, set up more accounting offices, increase the number of staff members in such offices and help them raise their work efficiency. Efforts must be made to shorten the period in verifying the capital of joint ventures. We must periodically check the situation on how capital contributions are made by FIEs. Measures must be worked out to impose sanctions on those joint ventures that fail to fulfill their contracts according to regulation and delay their capital contributions that are long overdue.

Enterprises With Trading Rights Face Difficulties

93CE0707A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 137, 15 May 93 pp 47-48

[Article by Qiu Yong from People's Government in Xiangfan City: "Develop New Situation in Promoting Foreign Trade"]

[Text] After working hard and developing itself, the Xiangfan City International Trading Company was formally approved by the state in May 1988 as a company which has the rights to manage its own import and export businesses. This provided the city's foreign trade departments and even the entire Xiangfan City a new opportunity for further development. However, before the decision to reform the state foreign trade system was made in 1991, Xiangfan City was unable to give full play to its due role to develop its export-oriented economy and take advantage of its economic and trade system and all the enterprises in the city. After the State Council "Decision" on the new foreign trade system was promulgated, the basic foreign trade units below the provincial level were pushed to the forefront of foreign trade. To keep pace with this major changes as quickly as possible, the whole city boldly explored ways and worked hard to do well in "international trade," let hundreds of enterprises share the rights of one international trading company in support of export businesses, and further expand all channels in carrying out foreign trade.

I. "Monopoly" Restricts Use of Import and Export Rights

Implementation of the new foreign trade system by the state in 1991 with the focus on "making one's own management decisions and taking full responsibility for one's own profits and losses" has created many new problems and imposed many new demands on the various foreign trade departments in the city, particularly the basic-level foreign trade enterprises and production units. Under the new situation, the rights to import and export goods are "monopolized" by the city's international trading company. This has impeded the development of foreign economic relations and trade in the city.

1. Channels for export become narrow, restraining various foreign trade companies in expanding and managing their own businesses. The announcement of the new system makes more and more foreign trade enterprises realize that only by extricating themselves from their old pattern of supplying goods only and vigorously managing their own businesses, will it be possible for them to stand up. In reality, there remain many foreign trade companies which are not authorized to handle their own import and export businesses. These companies can only ask the city's international trading company to act on their behalf, even if they themselves have the chance to do business directly. There appears the "bottleneck effect."

2. The operation mechanism is not so smooth, affecting work efficiency. Managing one's own export business is a comprehensive project. In addition to source of goods, clientele, trading ports and allocation of funds and goods, it also involves certification, form-filling, customs clearance, storage and transportation, planning, foreign exchange account settlement, export tax refund procedures and other types of specialized work. If the city's international trading company is to carry out all these tasks alone, it is going to take a long time, and the return of the investments made by enterprises will be slow. Although the international trading company tries its best to work for other companies, other companies sometimes blame it for doing its own work first, while ignoring others. This has caused some misunderstanding among various foreign trade companies.

3. The training of qualified persons for various companies to manage their own import and export businesses is delayed. The situation with the city's international trading company monopolizing the import and export rights suppresses the desire of a large number of foreign trading companies to train their own qualified personnel for managing their own import and export businesses, thus delaying the improvement of the overall quality of staff members and workers in the field of foreign trade.

In short, the monopoly or the restricted use of the import and export rights has already seriously prevented Xiangfan City from expanding exports and even from carrying out the work of opening up to the outside world.

II. Reform Business Management System; Use Import, Export Rights Flexibly

After comrade Deng Xiaoping gave important talks during his south China tour, a new high tide of reform and opening up has been whipped up, and the export-oriented economy flourished. If we do not expand exports while continuously developing the export-oriented economy, we will be thrown into the quagmire of passivity deeper and deeper. It will be difficult for various foreign trade enterprises in the city to extricate themselves out of their predicament. For this, we must reform our import and export management system, work hard under the signboard of "international trading" and fully and flexibly use the import and export rights in our hands.

1. The city's international trading company merged with the city's commission of foreign trade and economic cooperation, and plays the role of a corporation. With the approval of the city government, the city's international trading company and the city's commission of foreign trade and economic cooperation merged in 1992. The original international trading company has in fact become an international trading corporation with one group of staff members and two signboards. The dozen or so companies specialized in industrial products, machinery, textile products, chemicals, grain and edible oil, local and animal products, garment and knitwear which were originally under the administration of the economic and trade commission have logically become branch companies of the corporation, and at the same time, earned the rights to import and export. This has broken down the monopoly by a single company and let hundreds of companies share the privilege. To keep pace with the large amount of work to be done, the city's international trading corporation has timely added a comprehensive business department, strengthened planning and management in financial affairs, and handled all the work in certification, form-filling, customs clearance, storage and transportation, planning, foreign exchange account settlement and export tax refund in an unified manner so as to ensure the smooth operation in managing its import and export businesses.

2. Efforts have been made in giving full play to the role of production enterprises as a main force in promoting foreign trade. In earning foreign exchange through export, we must rely on production enterprises after all. Only by allowing production enterprises to directly compete with others on the world market, will it be possible for them to accurately aim at the international market, keep up with the market changes, and reap their full benefits in foreign trade. For this, we have energetically helped production enterprises earn the rights to manage their own import and export businesses. In 1992, a group of enterprises such as the Xiangyang Ball Bearing Group and the Zaoyang Bicycle Plant were granted the right by the state to manage their own import and export business. They have now already started to import and export on their own.

3. Efforts have been made to delegate power to foreign trade enterprises at the county (city) and district levels to manage their own imports and exports. There was practically no flexibility in doing foreign trade at the county (city) and district levels. What they implemented was the supply system of a mandatory nature. They had to survive in a narrow space and live in terrible predicament. In 1992, the city approved the foreign trade enterprises in nine counties (cities) and districts including Zaoyang, Suizhou, Laohekou, Xiangyang, Nanzhang, Gucheng, Baokang, Icheng and Fanxi as branch companies of the city's foreign trading company, and actively encouraged and supported them to import and export directly. Practice substantiates that this reform measure has greatly raised the awareness of the foreign trade enterprises at the county (city) and district levels in creating the new and forging ahead.

4. "Power" has been further extended. First, various offices of the commission of foreign trade and economic cooperation stationed abroad are allowed to work under the name of branch companies of the international trade company and granted the power to import and export directly. Right now, the offices of the commission of foreign trade and economic cooperation stationed in Hong Kong, Shenzhen, Beihai, Xiamen and other localities are developing import and export businesses under the name of the branch companies of the Xiangfan International Trade Company. Second, power has been delegated to various enterprises in addition to the foreign trade enterprises. Right now, the various departments of grain and basic supplies and the Xiangfan economic and technology development zone for car industry have set up branch companies of the Xiangfan City International Trading Company to promote import and export businesses on their own. The aforementioned four aspects have reflected the city's general pattern in promoting foreign trade in all domains, at different levels and through many channels.

Create a New Situation in Foreign Trade

Nearly one year passed since the implementation of the new import and export management system. A new pattern of foreign trade has taken shape with the practice of managing one's own imports and exports in all domains, at different levels and through many channels as the leading role.

1. Enterprises that manage their own imports and exports to earn foreign exchange have been rapidly developing, and their economic efficiency is steadily increasing. In 1992, the city scored remarkable achievements in promoting exports and increasing economic efficiency in the course of handling their own export affairs. According to statistics, enterprises that manage their own export businesses in the city earned 108 percent more foreign exchange in 1992 than in 1991 and nearly four times more foreign exchange than in 1990. Various departments of economic affairs and trade that manage their own import and export businesses earned 111 percent more foreign exchange in 1992 than in 1991.

For example, the City's Foreign Trade Company for Machinery increased its export volume by more than five times over that in the same period in 1991, after it became the branch company for machinery of the city's international trading company in 1992.

2. The mechanism of foreign trade enterprises' business operation is improving each passing day, and the scope of their businesses is becoming much more comprehensive. After starting to manage their own import and export businesses in the city in 1992, the various branches of the city's international trading company have continued to carry out the structural reform of their business mechanism; improve the contract system for enterprise management; energetically change their business mechanism, and whip up the enthusiasm of all sectors in earning foreign exchange through export. While consolidating their positions on the world market and expanding their clientele, they have tried their best to open up new market, attract new customers, and expand international trade. The overseas branch of the city's international trading company has taken the lead in carrying out internal reform, and set up and improve the mechanism in "exercising self-restraint, inspiring themselves, improving its abilities to meet market competition, developing themselves and coordinating with other companies in serving customers." To keep pace with the new situation in managing their own import and export businesses, it has also continued to open up new markets, develop new products, add new branches of businesses and explore new channels for business. In

1992, it also initiated a project that involves "Chinese-foreign joint ventures, cooperative and wholly foreign-owned enterprises" and tried to actively engage in real estate business.

3. The practice of managing one's own imports and exports has improved the overall quality of staff members and workers in the field of economic affairs and trade. To insure that various international trading branch companies carry out their work well, the city's international trading company has sponsored training classes in the study of English, accounting, statistics and international trading to train the staff members and workers of various branch companies. Meanwhile the active participation of various branch companies and their staff members in managing their own import and export businesses has provided a chance for the staff members to show their wisdom, talents, and their subjective activism. As seen from the situation in self-management since the development of the reform program, all staff members and workers in the field of economic affairs and trade in the city have been tempered and their overall qualities improved. Staff members and workers remain the same, but their achievements have been increased by several times as compared with those before the development of the reform program. They have also become mature, making us more confident than ever before to do international trading well, fully and flexibly use the power given us by the state to handle our import and export businesses, and develop the overall economy and trade throughout the city.

Liu Zaifu on State's Position in Literature

93CM0439A Hong Kong MING PAO YUE-KAN [MING PAO MONTHLY] in Chinese No 8, Aug 93 pp 118-122

[Article by Liu Zaifu. "Literature's Exiling of the State"]

[Text] Modern Chinese literature has only practical concepts of the native land and the state, but not transcendental concepts of the native land and the state. Because modern Chinese literature is unable to reflect on the state and the native land on the basis of exiling them from real time and space, modern Chinese literature lacks a rich metaphysical spiritual layer.

1. At the 1991 academic symposium, "Reflections on 20th Century Chinese History," held in Hawaii, Professor Li Oufan, when expounding the concept of "internal exile" used by Havel and other Czech intellectuals, pointed out that if exile literature could move from the "exiled by the state" mentality to the voluntary self-exile mentality, it would be able to gain more freedom of space. In the last few years, I have encountered this issue both in creative endeavors and in research, and therefore have done some thinking on the issue. The result of the thinking is to turn Li Oufan's second mentality into a third mentality, that is, the "exiling the state" mentality. This mentality means to self-consciously put oneself in the position of spiritual marginality so as to confront the totalitarian, omnipresent power center. It is a subjective psychological state that an individual creates to gain mental emancipation freedom. Among those acquiring such a state are not only the exile writers overseas, but also writers dwelling within the state's boundaries. By putting themselves in the independent position of spiritual marginality, all writers can "exile the state."

If China's exile literature was started by Qu Yuan and has Qu Yuan as its first successful representative, then his mentality was exactly the "exiled by the state" mentality. On the other hand, "self-exile" is to put aside the state, and create "one's own spiritual garden" (Zhou Zuoren), travelling in the mental space that one has created by himself. But "self-exile" means only a negative freedom based on avoiding the state; meanwhile, "exiling the state" means a positive freedom based on taking the initiative in controlling the state and transcending the ideas of the concrete state and race. In such a state of freedom, a writer changes his and the state's respective positions as a subject or an object. The state can exile the writer, and the writer can also "exile the state." A writer is no longer playing the role as a victim in history, being exiled by the state, or the role as a spiritual refugee hiding in a small room; instead, the writer recovers the sun-god spirit that a writer should have, freely and calmly observing everything, including the state.

"Exiling the State" and "Self-Exile"

2. The similarity between "exiling the state" and "self-exile" lies in that the subject is "I" in each case. The difference lies in the object. In the former case (exiling

the state), the object is the state: a product of ideology, an idea denoting a large collective, an ever-present oppressive atmosphere, and the hegemonic speech dominating all other speeches. In the latter case (self-exile), the object is the individual: a self-conscious actor and a life residing in its own life.

"Self-exile," as a kind of spiritual exile, dilutes the ideas of the state and the country. Even when living within the state's boundaries, a writer can still think freely. However, according to the definition of "self-exile," the state still exists; thus "I" can only engage in fleeing and avoiding, or go to faraway places. But whether fleeing in a physical sense or spiritual sense, one is always followed by the shadow of the state. I do not want to identify with the state, but the state often identifies with me.

"Exiling the state" means being more conscientious and taking greater initiative in transcending the idea of the actual state, keeping the idea of the state as a power center at a distance but not avoiding the state. Proceeding from the subject, it redefines the state as an object in the face of infinite time and space and the finite homeland, that is, regarding the state as a target to be handled by the subject as an individual. Under this definition, a writer can freely control the state. The state can be kept in the mind, but can also be put outside the mind; the state can exist, but can also become nonexistent. The state can be embraced and cared for, but can also be kept at a distance. In any case, the state is never the first choice; instead, the ontological value of the emotions of the real individual is the first choice.

A writer's redefining of the state also undergoes changes, with changes in the intension of the subject. When a writer considers himself to be a creator of art or a "son of god," he will be able to completely transcend the various worldly ideas of the native land or native country, acquiring the belief that the native land is not in this world but in the other world; when a writer considers himself a "son of man" with the status as a "world citizen," he will also be able to transcend state boundaries, and will, as a nomad, regard any place where he is as his home, never feeling that he is "away from home"; when a writer considers himself a "carrier of culture," he would only identify with the state as a form of existence of culture, but would not identify with the state as a power center. As Thomas Mann of Germany did, the writer holds that he carries the culture of the native country, that is, that the motherland does not exist within the state's boundaries alone. When a writer considers himself a subject experiencing individual emotions, he will have exiled the state from its "supreme" position, refusing to consider the idea of the state to be an a priori understanding which dominates and sorts the individual's particular experiences. Thus, the state is no longer the hegemonic speech dominating individuals' experiences and individuals' speech in relation to literary creation, but an object that writers tackle in various ways. All those changes discussed above entail "exiling the state."

Demand for Renouncing the Nationalization of Literature, and Mainland Writers' Protracted Struggle

3. The "exiled by the state" mentality, the "self-exile" mentality, and the "exiling the state" mentality can all produce successful literary works, if only there are true sentiments and unique ways of expression. "Exiling the state" does not consider itself to be opposite to being "exiled by the state," but strives to shake off the habitual "being exiled" mentality. The literature based on the "being exiled" mentality has a history of 2,000 years, and the "bitterness resulting from the love for the country and the homesickness" have become an inescapable "obdurate complex" haunting Chinese writers, thereby affecting the transcendence and sublimation in terms of the spiritual level of writers' creative endeavors.

As shown by the development of new Chinese literature in the 20th century, the idea of the state is the fundamental obstacle to writers' entry into the realm of metaphysical freedom. In the 1980s, mainland writers made countless appeals and fought countless times for the freedom of creation; the essence of such appeals and struggles was to demand that the state renounce the nationalization of literature (such nationalization was so thorough that the creative approaches had also been nationalized), and stop using political power to control writers' creation. In such struggles, writers appealed to the state, speaking for literature; but the state remained the supreme idol. As a result, when writing, a writer's humanitarian stand is still subordinate to the stand of the state; a writer's personal sentiments is still subordinate to the state's morality; the state remains the ultimate reality as far as literature's sentiments are concerned. Writers who were courageously demanding individual freedom from the state on the practical level were unable to psychologically tackle the state in an individualized manner, and powerless in the face of the idea of the state. In the early 1980s, the mainland saw several novels depicting the Sino-Vietnamese War. At that time several young writers tried to transcend the stand of the state, and to tackle the subject on the basis of proceeding from the literature—humanity—individual sentiments stand. Because of that, they were immediately subjected to devastating criticisms; furthermore, none of the well-known writers or critics publicly defended them, for they were not faced with the power holders, but the incomparably sacred idol of the state. This idol meant the supreme moral court, and an external authority that could never be transcended. Thus, many Chinese writers are not only being oppressed by the state's cultural despotism as can be observed, but also being suffocated by the omnipresent idea of the state in terms of their inner state of mind concerning culture, thereby becoming spiritual slaves who are experiencing both internal and external difficulties, and who are holy and pure but also contemptible.

Contemporary Chinese Writers Are Unable To Distinguish the "State" From the "Court"

4. Early this century, Liang Qichao suggested that one should distinguish between the state and the court,

between the state and the country, and between the state and the people, criticizing that the reason why the Chinese people were weak in their patriotic sentiments was because they failed to distinguish the state from the court and to understand that being "patriotic" meant, importantly, to love the people, instead of the court ("New History," "On Patriotism," "On the New People," "The Root Cause of China's Being Weak," etc). This was an important effort to enlighten the Chinese. The 4 May New Culture Movement again tackled patriotism in a rational manner, holding that patriotism meant neither loving the monarch nor loving the "quintessence of Chinese culture." A patriot should be neither a slave to the monarch nor a slave to the quintessence of Chinese culture. Nevertheless, some contemporary Chinese writers often refuse to get enlightened, and have all long been unable to distinguish between the state and the court, between the ideology of the state and national sentiments, between the monarch, the land, the people, national affairs, and the national language and culture, confusing the political-power part of the national institution, the state, and the motherland, thereby always failing to reach the understanding levels reached toward the end of the last century and early this century. Some writers can reach the level of Liang Qichao, but cannot surpass Liang Qichao. That is, they dare to confront the court, but not the state; they can speak for the people at the court, but do not dare to pursue the spiritual value of their own independence or the right to freely engage in individual spiritual creation in the face of the state; and they do not dare to put the individuality stand, humanity stand, and literature stand above the stand of the state. Herein lies the fatal weakness on the part of Chinese writers, and the basic reason for the inability to achieve spiritual sublimation.

The 20th-Century Chinese Writers' Efforts To Challenge the "Idea of the State"

5. In the 20th century, modern Chinese thinkers and writers have challenged the idea of the state in the process of seeking spiritual independence and the right of free literary creation. In the 1918 article "On Destroying Idols," Chen Duxiu argues that it is necessary to destroy the "idol" of the "state," contending that the "idol of the state" is a "harmful idol" (XIN QINGNIAN, 1918). He advocated the people's literature and society's literature, but not the literature of the state. Zhou Zuoren declared that the new literature they advocated was of "humanity as well as of the individual, but not of the race, the state, the native place, or the clan" ("Demands Raised by New Literature," 1920). New literature should replace old literature's "state totem and nation totem" with the "human totem." In 1923 the Creation Society advocated cosmopolitanism and was opposed to statism; therefore, the society considered the state to be the enemy of literature. Yu Dafu's article, "Art and the State" (CHUANGZHAO ZHOUKAN No 6, 16 June 1923), argues that "the present-day state and art are mutually exclusive" for the following reasons: the state only pursues interests, and is totally insensitive to

art; the value of literature and art lies in truthfulness, but the state hates the most the speaking of truth when pursuing its goals; literature's ideal is peace, while the state's ideal is ambition; and literature pursues the eternal justice, while the state only pursues the narrow justice centered on one state. In the same year, Guo Moruo also wrote an article to attack the "state," arguing that "after evolving in history, the state has become the prison of the human race, and human ideas are dying under this system" ("The State and That Which Transcends the State," September 1923). After 1930, this article was removed from *Lunji* [Collected Commentaries] and *Wenji* [Collected Articles]. This was because he himself had moved from the antistate extreme to the opposite extreme, that is, absolute obedience to the state. What he wrote during the 4 May period were works that opposed the state's ethical rules and which sought individual emancipation, such as "Zhuo Wenjun"; but in the 1960s, what he wrote were works like "Cai Wenji" and "Wu Zetian" which extolled monarchs or other purely praise-singing works.

Guo Moruo was a proponent of the idea that the individual was supreme during the 4 May period, became a supporter of "national defense literature" in the 1930s, and turned into a person totally subservient to the state's absolute authority after 1950; he underwent great spiritual changes, holding the state or the individual to be supreme at different times. Strangely, those changes were easy to him, and there were no psychological impediments. During the 4 May period, although he and other Creation Society members worked hard to extol the self, they failed to rationally grasp the significance of the spiritual value of the individual's independence to intellectuals. Instead, they used the "self" as a tool for fighting the "court" and for establishing a new collective order. Thus, after establishing the goal of a new collective order, he betrayed his own slogan and gave up the pursuit of the spiritual value of the individual; and he inflated the self, turning the self into the spokesman for the collective order or even of the state's order. He changed from a proponent of self-expression and the idea that "the individual is supreme" into a proponent of national defense literature and the idea that "the state is supreme," and finally became a representative of the "new pavilion" literature which sang praises in accordance with the idea that "the leader is supreme" and which was devoid of individual perceptions and individual-experience language.

The "State Plus Love" Model Is "Chinese Affectation"

6. As different from Guo Moruo who followed closely political trends of the times, another group of modern Chinese writers did not give up the demand for individuality, but they still had difficulty placing the state in their literary works. The state complex always haunted them, even resulting in a situation in which they found no place to stay. Take the example of Yu Dafu. Although he came to understand, proceeding from his stand of independent literature, that the state and literature "were mutually exclusive," he was still unable to find enough creative power to shake off the state complex in the process of creative endeavors. His *Chenlun* [Sinking]

depicts the human struggle of the individual, a kind of pain which is completely impossible to be reflected through depicting collective sentiments. There is totally no need to connect such depiction to state sentiments. Nevertheless, as he did not have the strength to "exile the state," he crudely put the mask of the state on personal emotions and desires, and attributed his failure to be well served in a Japanese brothel to something relating to the state, declaring that he "will never love a woman again, but will make the state a mistress" and expressing the will to win glory for the state at an inappropriate time and in an inappropriate place. As a result the novel became an affected work which combined the despicable and the noble in an artificial manner. Such is the "Chinese affectation" that is absent in Western literature, and such affectation is entirely against normal aesthetic psychology. On the other hand, having the individual's emotions and desires guided by the state in such a manner also made the novel lack psychological depth and human depth. The psychological conflicts which have just emerged are quickly devoured by inexplicable patriotic sentiments.

Linking personal sentiments to the state and ideology, crudely inserting external ideas of the state and party as well as other political ideas into the realm of personal emotions, and turning physiological tension and emotional tension into issues of social order, state order, and social justice were a prominent narration problem on the part of the Creation Society. Consequently, after the emergence of the "state plus love" model of *Chenlun*, there also emerged the narrative model of "revolution plus love." Such a narrative approach, which artificially mixed the individual character of sexual love with the public character of revolution, the state, and society, also had impact on socialist-realism literature in general, that is, revolutionary literature in a broad sense. In such literature, sexual love becomes a symbol of violence or being oppressed, or becomes the basis for revolution, or becomes the sign demonstrating the pseudo complexity of class struggle, or becomes a means of sacrificing oneself for the state and revolution; the political affectation involved is hard to cover up. The history of creative endeavors on the part of the Creation Society and all revolutionary literature shows: that artificially embracing the state at a time when the state should be exiled will result in the affectation which is the most fatal to literature.

Shen Chongwen and Other Writers Adhered to the "Idea of Transcending the State and the Nation"

7. To maintain their own spiritual independence and freedom of spiritual creation, some modern Chinese writers such as Zhou Zuoren, Lin Yutang, and Shen Chongwen made conscious efforts to keep the state at a distance psychologically, creating "their own gardens" which had nothing to do with the state. This was the continuation of the Chinese hermit idea in modern times, and also an example of adhering to the idea of "transcending the state and the nation" as advocated in literary works of the 4 May period.

The hermit idea has two meanings: the first is the idea of "self-exile," that is, becoming a hermit in "one's own garden"; the second is the idea of "exiling the state," that is, a way in which the self handles the state: in writing, a writer forces the state to become a hermit, making the hegemonic state speech be exiled from individual speech. However, the hermit idea has never had any place in modern Chinese society and the spiritual realm, and has been the target of criticisms and attacks. In the 1930s, Lu Xun's criticisms of Zhu Guangqian and Lin Yutang were all attacks on the hermit spirit. Lu Xun's articles, "The Hermit" and "A Few Words After Illness," were direct sarcastic attacks on the hermit spirit. Nevertheless, Lu Xun's criticism represented his rejection of negative freedoms, but not identification with the state. He himself always sought to exile the state and pursued critical and positive freedoms, while using spiritual marginality to resist the totalitarian power center. However, he lacked tolerance toward the hermit spirit entailing negative freedoms, and thus in fact eliminated writers' space of spiritual freedom.

After 1942, especially after 1949 when literature was nationalized, as literature was asked to directly serve politics, literature had even less right to keep real-life struggles at a distance. With the loss of such a right, it became no longer possible for writers to achieve spiritual transcendence. As a result, the spiritual realm, the richest thing in the world, had to accommodate the most simple mundane life, and the freest form of emotion became the most mechanical gear fixed onto the machine of the state; spiritual production relating to the world of imagination was completely submerged by the real world. Writers did not even have the right to exile themselves to the spiritual sphere created by their minds (self-exile), much less "exiling the state." All this not only resulted in the total loss of private space on the part of contemporary Chinese writers, but also the basic defect of new Chinese literature, that is, the lack of imagination.

The Idea of Transcendental Literature—"The Home of Nothingness"

8. Literature is not only a form of reflection of reality, but also a form of existence of reality-transcending free sentiments. If a tolerant attitude, instead of an authoritarian

attitude, is adopted toward the hermit idea, then writers have the right to be hermits, thereby avoiding the state, and are able to handle the object of the state in individualized ways (free choice). They can equate the state to the "native land" (native place), and then exile the native land; they can also equate the state to beliefs and culture. For instance, many Israelis in diaspora can maintain their unique concepts of the state and the native land which are very different from ordinary concepts, thereby making the native land or native country transcend specific time and space. Zhuang Zi says that "all things come from being, and being comes from nothingness," and that "nothingness"—"the home of nothingness"—is the real native land. Li Bai regarded himself as a "celestial being exiled from heaven," and considered real life to be but a temporary residence. *Honglou Meng* [Dream of the Red Chamber] mocks those seeking fame and fortune in the mundane world, contending that those people do not know where their native land is, but "consider other places their native land," and that they mistake their temporary residence for their ultimate native land and destination, and fail to know that their true native land is outside real time and space. On the other hand, Camus endeavored to seek his native land outside the wall of absurdity, and to affirm the essence of life by placing it in the natural native land. Such an idea is just the idea of exiling the actual native land and the actual state. It is proper to critique such exile by invoking certain real-life value standards; however, such exile is not only beyond reproach in the sphere of literature, but also necessary in order for literature to acquire its metaphysical character.

Modern Chinese literature has only practical concepts of the native land and the state, but not transcendental concepts of the native land and the state. The kind of thinking based on taking life to be a passer in a hurry, as manifested in Lu Xun's "The Passer," is very rare. The asking of some initial reality-transcending questions (such as those raised by Xu Dishan) on the mystery of life immediately encountered criticism from Mao Dun. As modern Chinese literature has failed to reflect on the state and the native land on the basis of exiling the state and the native land from real time and space, modern Chinese literature lacks a rich metaphysical spiritual layer.

Zhang Zhen Speech on 'Autumn Harvest Uprising'
93CM0401A Beijing JIEFANGJUN BAO in Chinese
7 Jul 93 p 1

[Article by Jiang Yonghong (3068 3057 4767): "Momentous Revolutionary History Film, 'Autumn Harvest Uprising' Premieres in Beijing, Deputy Chairman Zhang Zhen (1728 7201) Attends, Speaks"]

[Text] The momentous revolutionary history film, "Autumn Harvest Uprising," produced by Xiaoxiang Film Studios premiered today in the western Beijing Guesthouse auditorium in commemoration of the 100th birthday of Comrade Mao Zedong. Central Military Affairs Commission Deputy Chairman Zhang Zhen attended and gave a speech.

"Autumn Harvest Uprising" is a good film both in terms of its theme and artistry. It vividly recreates the history of previous years, and successfully portrays a number of historical figures, notably Mao Zedong. In advance of the premiere, clips of the film were seen by leading comrades on the Central Military Affairs Committee and some old generals and experts concerned, and some important views for revisions were made.

At the premiere, Deputy Chairman Zhang made a speech. He said that he saw this film several days ago. It is strongly ideological, of great historical value, of great educational significance, and it expresses the great correctness of Mao Zedong thought that "politics grows out of a gun barrel." It expresses determination to dare to struggle and dare to win, and it expresses the ideology of people's war. It particularly expresses the leadership of the party.

Deputy chairman Zhang Zhen reviewed history from the northern expeditionary war until after the Nanchang Uprising, emphasizing the extreme importance of the party maintaining absolute leadership over the armed forces. He said that prior to the Sanwan reorganization, party branches were established in regiments. After the Sanwan reorganization, party branches were established in companies. At that time, fighting was cruel and arduous, but since companies had the powerful fighting force of a party branch, they were able to stand up to every grim test.

"We must take a road that our predecessors did not take, a road that is consistent with realities." Deputy chairman Zhang quoted these lines of Mao Zedong in the film. He said that 66 years ago, acting according to the realities at that time, Comrade Mao Zedong led military forces into Jinggangshan to take a distinctively Chinese course of armed seizure of political power. Today, acting according to realities in China, Comrade Deng Xiaoping calls for the building of a distinctively Chinese brand of socialism. He likewise has no ready made model for the road ahead, and he also encounters various difficulties and dangers. In this sense, this film holds extremely powerful real significance. Today when economic construction is most important, the mission of China's

armed forces is both to safeguard national defense and the socialist system, and to take active part in supporting the building of socialism. The viewing of this film by the broad masses of officers and men holds very great educational significance.

Finally, Deputy Chairman Zhang thanked the Ministry of Radio, Television, and Cinema, the Hunan Provincial CPC Committee, the Hunan provincial government, the Xiaoxiang Film Studio and comrades in the production unit for making this fine film.

Shao Ke, an old general who had taken part in the battles at Jinggangshan, reminisced with deep feeling about the Nanchang Uprising. He felt that this film was faithful to historical facts for the period from the 7 August Meeting [a CPC Committee meeting on 7 August 1927 in Jiangxi Province that removed Chen Duxiu from leading posts in the CPC] to the Autumn Harvest Uprising, and that it offers fine instructional material for education in the revolutionary tradition.

Others attending the premier were Saifuding Aizezi [6357 4395 7844 5337 0463 1320], deputy chairman of the CPPCC; Yu Yongbo [0060 3057 3134], deputy director of the General Political Department and assistant director Xu Caihou [1776 2088 0624]; and personnel concerned such as Zi Zhisheng [5337 4249 3932], Minister of Radio, Television, and Cinema. The main personnel involved in making the film met with the public.

Tank Division Excels in Desert Maintenance Exercise
93CM0401B Beijing JIEFANGJUN BAO in Chinese
5 Jul 93 p 1

[Article by Su Zhongxian (6079 1813 6343) and Zhang Lin (1728 2651): "Tank Division's Field Warfare Rush Repair Capabilities Improve Greatly, Damaged Tank Restoration Rate Reaches 63.7 Percent"]

[Text] More than 80 tanks of a certain tank division in the Lanzhou Military Region that took part in a desert warfare exercise to test tank restoration capabilities were quickly repaired, the damaged tank restoration rate reaching 63.7 percent. The division's experiences were affirmed by the General Staff departments concerned.

Tank battlefield restoration capability is an important element in victory in modern warfare. Faced with dramatic changes in combat support needed for high technology weapons, this tank division absorbed the lessons of experience of foreign armed forces, applying them to its own circumstances. It proposed placing the emphasis of training on the weak link of poor battlefield tank restoration capabilities to make sure it wins the upper hand in future combat.

In view of various difficulties in desert warfare, including large amounts of windblown sand, great temperature differences, and difficulty concealing tanks, this division made a series of readjustments and reforms in its work approach and its technical methods. It used time-saving all-encompassing work methods in the pioneering of a new approach to field warfare rush repairs. It prepared "250 Questions About Field Warfare Rush Repairs," which was based on repeated validation and testing. This instruction summarized field warfare rush repair methods suited to modern warfare, and relied on the updating of skills to improve the level of modernization of repair tools. The division set up a special team made up mostly of repair experts to tackle problems, and it did a lot of updating of skills. As a result, equipment repairs and updating of the units weaponry proceeded hand in hand, thereby producing a great improvement in field warfare rush repair capabilities.

Division Trains in Defeating Night Vision Equipment

93CM0401C Beijing JIEFANGJUN BAO in Chinese
27 Jun 93 p 1

[Article by Zhao Zhongfan (6392 1813 5400) and Li Xuanqing (2621 6693 3237): "Certain Division Updates Night Training Skills Using Existing Equipment, Permitting 'Night Tiger' To Restore Tiger's Prowess"]

[Text] Nighttime training reforms in a certain division of the Shenyang Military Region have been raised to a new plane through the use of multiple service arms and techniques of all kinds in contests of strength with opponents possessing modern night vision equipment.

At 2200 on 4 June, at a nighttime training base of a certain division in the Changbai Shan region, the reporter saw a senior officer headquarters use low light level night vision devices that it developed itself to pile up a sand table, to plot information, and to write combat orders. A "blinding" team penetrated the "enemy's" forward positions where it used light, sound, and electricity to damage and blind the enemy's night vision equipment. A combat team clad in night warfare camouflage concealed itself close to the enemy. The on-site commander of the nighttime training and an apprentice commander told the reporter that during the war years this division had been awarded the titled "night tiger," and that during the past 10 years, it had been given three nighttime pilot project training missions by higher headquarters in which it had tested night combat tricks under routine conditions. In 1993, with the peculiarities of modern combat in mind, the division CPC committee reviewed conventional tactics, proposing some new approaches to improve night training.

The division leaders personally went to military academies and scientific research units to seek out foreign armed forces data. They set up 100 foreign army research topics, operated a foreign army research exhibition room, training method exhibition room, and tactics exhibition room. They organized the writing of

academic articles, and wrote teaching materials in order better to know both themselves and their potential adversaries. They spent 100,000 yuan on the purchase of a number of sophisticated low light night vision devices, and they invested 600.00 yuan in the construction of a nighttime, three dimensional composite training base. They issued sophisticated light, sound, and electrical equipment capable of simulating modern night warfare landscapes to everyone from individual soldiers to combined forces, and from ground units to air units. They themselves researched, developed and improved nearly 100 night training devices. This was like adding wings to existing equipment for winning modern night combat. The reporter saw a number of innovative devices used in nighttime training such as portable blinding flashing light devices, sound-controlled light detectors, and gun-fired smoke emitters, which rendered the enemy's modern "nighttime cats eyes" ineffective.

The entry of modern techniques into nighttime training has forced the officers and men of this division to part with the past in improving their nighttime combat methods to update the substance of this training. They made the modern nighttime warfare teaching equipment they urgently need but do not have for approaching the enemy and countering the enemy's approach, for infiltration and counter infiltration, for breaking obstacles and countering the breaking of obstacles, and for encirclement and counter encirclement the main them they sing. They ingeniously use smoke screens, powerful lights, camouflage, and the terrain to counter the enemy's high technology night vision devices. In the course of studying and training, they have found delegated command methods, vertical penetration and mingling techniques, air and ground joint resistance methods, and multiple blinding methods that make a reality of the use of inferior forces to win victory over superior forces in nighttime warfare.

Jiangxi MD Commander on Reserve Duty

93CM0396A Beijing ZHONGGUO MINBING [CHINESE MILITIA] in Chinese No 5, 9 May 93 pp 24-25

[Article by Feng Jinmao (7458 6855 5399), Commander, Jiangxi Province Military District: "Thoughts About a Basic Approach To Building a Military Reserve in a Socialist Market Economy"]

[Text] What the basic approach should be in the comprehensive building of a militia reserve in a socialist market economy is an important topic worthy of diligent study and exploration.

Need To Give Serious Attention to the Fashioning of Laws and Regulations To Enhance Concepts About Operating the Militia According to Law

With the gradual building of a socialist market economic system, the former reliance on "prestige, notices, and contacts," the issuance of "official documents" and the

raising of money through "assessments" are no longer effective for the development of a militia reserve. Normal performance of militia reserve work under these circumstances requires support in the form of sound laws, regulations, and a system, the militia becoming more regulated by law.

The fashioning of more laws and regulations is a basic task in the building of national defense reserve forces. The main problems awaiting solution today are as follows: (1) Need for greater publicizing of laws, regulations, and the system. The nationally promulgated "Constitution," "Militia Law," and "Militia Work Regulations" form an important legal basis for the building of the militia and reserves during the new era. They must be resolutely enforced. Study and solution of the new situations and new problems encountered during current reform and opening to the outside world require, first of all, the energetic publicizing throughout society of pertinent laws and regulations, seeking answers in laws, rules and regulations. For example, militia work related to three kinds of partially or wholly foreign-owned enterprises requires emphasis on handling matters according to law. One very important prerequisite for foreign trade and Taiwan trade investment in the operation of factories in China is that they abide by China's laws, rules, and regulations, and this includes abiding by China's military service rules and regulations. (2) Need to deal with events in light of realities, formulating and perfecting local laws, regulations, and systems in coordination with national laws, rules, and regulations as situations develop and change, thereby making the laws, rules, and regulations specific, and making them more serviceable. For example, the system of laws and regulations that include "Regulations on Party Control of Armed Forces Work," "National Defense Education Regulations," and "Views on County (City or District) People's Armed Police Cadre Administration" that some jurisdictions have studied and formulated to meet new situations in recent years are workable. (3) All units must improve their sense of "applying the law" to the national defense reserves building of a military system. The law lives through implementation. Personnel at all levels should learn how to use legal methods to solve problems. They must guard against improperly substituting authority for the law or commands for the law.

Need To Highlight the Building of Quality, Establishing a New Mechanism for Militia Organization Management and Education Under the New Circumstances

Building of reserve forces means continued emphasis on the improvement of quality, building a new militia and reserves education and management mechanism.

1. The way in which the militia organization is structured should vary from place to place as geographical location, population distribution, and level of economic development require. These factors will dictate the concentration of forces and the emphasis. Most important is

development from a "single type" militia to a "combined type" militia made up of all service branches. Second is development from an "agricultural type" militia to an "industrial type" militia, more militiamen being drawn from rural industrial enterprises. Third is greater emphasis on an "all purpose" militia rather than a "war preparedness" militia. Practice shows that ideas about building a militia purely for the purpose of being prepared for war is no longer in keeping with the objective requirements of the international and domestic situations. An effective means whereby the militia can better perform its tasks of safeguarding social order and performing rescue and disaster relief tasks is to organize emergency militia detachments.

2. Militia reserve training should emphasize quality to narrow the gap with the wartime need to expand forces. With the military application of science and technology, the weaponry of China's armed forces is being gradually modernized. Strategic thinking and tactical principles are also steadily advancing and developing. New technology, new knowledge, new weapons, and new tactics have brought about extremely great changes in the basic make-up of the armed forces' combat strength. To meet this change, training of the militia reserves must depart from the "same old stuff," the "quality" of training being improved as quickly as possible. Improvements must be made in three main regards to do this: One is to widen the scale of training in special skills. Professional service arms that are needed when forces are enlarged, but that local jurisdictions have not trained for a long time, should be developed gradually in a planned way to satisfy the armed forces wartime need for many different branches of service and service arms. Second is improvement of weapons and equipment. Weapons and equipment that the regular armed forces no longer use, militia reserves should no longer use or employ in training. Such equipment should be gradually replaced to narrow the technology gap in equipment between the militia and the armed forces. Third is standardization of training, eliminating the recurring low level training of the militia.

3. Militia management and education requires the establishment and perfection of a new management and educational system. A new situation that militia work faces in the "three implementations" in the commodity economy is the absence on assignment elsewhere of many rural militia, and their frequent movement for long periods of time. Following investigation, study, and exploration, some of the province's military sub-districts and constituent county (or city) people's armed police have set up files on the travel elsewhere of militia from township and town people's armed police units, and from grassroots level militia battalions. They have instituted a control mechanism that includes the setting up of registers, keeping abreast of militia members whereabouts, and improving contact with them. Events have shown this new management and education system helps increase militiamen's sense of being a "soldier." Though people in militia organizations may be scattered

here and there, they are mindful of their responsibilities. When an emergency arises, they may be summoned at once.

Need To Continue To Combine Work and Military Participation, Forming a New Model of Using Soldiers, Training Soldiers, and Maintaining Soldiers on the Main Battlefield of Economic Construction

Continuing to combine work with military participation in the market economy, organizing militia reserve units to participate in the building of the economy, using soldiers, training soldiers, and maintaining soldiers on the main battlefield of invigorating the local economy. This crucial move that links one's role as a soldier to one's role as a "civilian" not only can make a contribution to the development of the local economy, but the organized activity and the military style control can also foster observation of discipline, obedience to orders, and coordinated actions on the part of militia reserve personnel. Thus it attains the "strong soldier" goal of improving the overall caliber of the militia. The basic ways to fashion this model that combines "the training of soldiers, the maintenance of soldiers, the use of soldiers, and strong soldiers": are as follows:

First is changing from using soldiers free of charge to payment for labor, widening channels for "maintaining" soldiers through their participation in economic construction. Formerly the militia were organized to take part in the building of projects of various kinds. This practice was, in essence, an egalitarian and indiscriminate transfer of militia forces to work assignments for which no compensation was paid. Militia units themselves derived no benefit from it, and individual militiamen received no compensation for it. In a market economy, a change must be made from the use of soldiers free of charge to payment for their labor, a labor management fee collected, labor used to maintain the militia. The organization of militia to take part in key construction projects differs from routine bridge repair and road paving projects, and from rescue and disaster relief activities of a local benefit, social philanthropy, or welfare character. This is because in such economic activities, military units provide services in the form of labor organization and management, and militiamen provide technical and physical labor, both of which, as well as the resulting project itself, have economic value. When the militia collect compensation for their labor, and military units withhold labor management expenses in accordance with the market economy principles of compensation and equal value, this is both an effective way in which labor can maintain military forces in the new era, and it is also an important means for maintaining troops and strengthening the armed forces under market economy conditions.

Second is the need to consolidate the militia organization through participation in regular economic construction. Organizing militiamen to take part in productive construction enables officers and men to work together in close association, improve understanding, deepen

feelings, and increase the centripetal force and the cohesiveness of the militia organization. The great stage of economic construction must be used to the full for constant enrichment of the content of militia activities and for widening of channels for militia activity. Only in this way can militia reserves meet the requirements of "organizational soundness, regular activities, and personnel performing useful functions."

Third is the need to improve the military and political quality of the militia through rigorous military control and lively and diversified political indoctrination. The militia must be organized to take part in economic construction, and the military style organization, military control, and military command must be maintained. Drills must be conducted to deal with suddenly occurring events, personnel mustered for accepted missions; training must be given for the assembly and movement of militia organized to go to work sites; a military life system suited to the character of the militia must be established for use in connection with construction and administrative control; training in military topics must be interjected and planned at suitable times in connection with construction projects; and constant ideological and political work must be conducted as the ideology of the militia warrants, mobilization conducted in advance of "war" and critiques and commendations given after "war," etc.

Fourth is organized use of the militia to improve the organization and command capabilities of the people's armed police system. During peacetime, there are very few opportunities for the special organization of fairly large scale rapid mobilization and training; cadre turnover in the people's armed police system is great; and the percentage of personnel who have not served in the armed forces is on the increase. Thus organization and command capabilities are in urgent need of improvement. Organization of the militia to take part in economic construction, training troops on the main battlefield of economic construction is a new way in which we can solve this problem. This not only helps improve military command capabilities in the people's armed police system, but it also helps with the overall toughening of cadres and the maturation of reserve forces cadres.

Sanjiu Enterprise Group Trade Figures Reported

93CM0400A Beijing JIEFANGJUN BAO in Chinese
10 Jun 93 p 1

[Article by Ma Huiming (7456 2585 7686) and Meng Fansen (1322 5694 2773): "Import-Export Corporations in Sanjiu Enterprise Group Make Timely Readjustments to Their Business Tactics"]

[Text] The import-export corporations of the Sanjiu Enterprise Group have made timely readjustments of their business tactics in response to the new climate during the building of a market economy. They have

expanded outward and developed inward, simultaneously opening up both domestic and foreign markets. The volume of their import-export business for the year totaled \$11.78 million, and foreign exchange earnings totaling \$7.57 million.

After the state removed import-export limitations and reduced licensing controls, these corporations lost their former special business advantage. They promptly readjusted their business tactics, departing from their former single way of handling imports and exports, and of passively sitting in Shenzhen to await business. Instead, they diversified, looked for business outside the country, and emphasized the development of trade in distant foreign lands, going abroad to take orders for goods directly. During the economic relations and foreign trade talks of November 1992 alone, they signed 13 agreements with customers in Russia, Sudan, Singapore,

Hong Kong, and Taiwan, concluding deals worth more than \$2 million. Plans call for the conclusion of 29 deals totaling \$5 million. During December of the same year, the directors of the corporations sent personnel to Egypt and Qatar to conduct trade talks. Within the short period of 20 days, they concluded five investment projects, signing orders and contracts totaling approximately \$5 million in value.

Acting on the basis of market demand, they selected six cities having superior geographical conditions including Shanghai, Wuhan, Heihe and Zhuhai for the establishment of branch corporations. Now, these corporations have begun to set up diversified kinds of business in many locations to engage primarily in the import-export trade but also to develop industries, securities businesses, and the real estate business, as well as border trade and barter trade.

END OF

FICHE

DATE FILMED

8 DEC 93